





## EUROPEAN NEWS

## German currency union talks hit snags

By David Goodhart and David Marsh in Bonn

NEGOTIATIONS between Bonn and East Berlin over the economic treaty upon which German currency union depends are running into difficulties.

Most officials still believe, however, that the treaty will be agreed and passed by both parliaments in time for the introduction of the D-Mark in early July.

Mr Rudolf Seiters, head of the Chancellor's Office in Bonn, said there were still problems over some of the welfare provisions of the treaty, which East Berlin says are inadequate, and over whether West Germans will have complete freedom to buy land and property.

Other difficult areas include the treatment of East German companies' debts and the degree of independence East Berlin will have in setting its budget prior to full unity.

Within the East German coalition, the Social Democrats have been pressing hard for more generous treatment for pensioners and are also worried that

the labour laws envisaged for East Germany do not include the generous pay-offs or "social plans" that West German employers must agree to when they close plants.

The junior coalition partners in the West German Government yesterday cautioned Chancellor Helmut Kohl against shunning Moscow's idea of forging German unity before working out all the military complexities, AP reports from Bonn.

The comments by Mr Otto Lambdorff, chairman of the Free Democrat Party, appeared to undermine an open split between Mr Kohl and his liberal coalition allies. Mr Lambdorff said no hasty decision should be made. In a radio interview, he said in his "current form" Mr Shevardnadze's suggestion was not acceptable and that many details remained unclear. But the goal should be to "bring the external and internal aspects of unification under one roof" - clarifying the question of full sovereignty for a united Germany and creating the conditions for that.

The East German textile trade union has called for national warning strikes today against the terms of the economic treaty. Nonetheless, Mr Matthias Gehler, the East German Government spokes-

man, said provisional agreement on an economic treaty was still expected early next week and should be endorsed by the Volkskammer (parliament) in early June. The treaty is also due to be

passed by the West German cabinet on May 18 before passing through the Bundestag and Bundesrat (lower and upper houses of parliament) on June 21 and June 22 respectively.

On June 17, German Unity Day, both German parliaments are expected to meet in the Reichstag in West Berlin, the site of Germany's pre-war parliament.

A serious dispute is brewing over how the costs of unity should be shared between the central government and the 11 Länder (states). Bonn has proposed that the states carry one third of the costs. According to Mr Johannes Rau, Prime Minister of North Rhine-Westphalia, this would cost his state DM5bn (£1.8bn) this year alone. The leaders of the Länder will meet Mr Helmut Kohl, the Chancellor, on May 16 to discuss the dispute.

The East German trade union federation, the FDGB, is to dissolve itself. A temporary committee made up of representatives from union executives will take over its functions. In the medium-term most East German unions are expected to merge with West German counterparts.

## VW chief warns EC on Japanese

By Andrew Fisher in Wolfsburg

VOLKSWAGEN'S chief executive, Mr Carl Hahn, warned the European Community yesterday to be vigilant about how it allows access to Japanese cars.

"The bitter experience that Japan must be considered in the industrial policy of the EC, even if it means that some principles of current economic policy have to be examined," he told the company's annual news conference.

His statement was made in the context of the European debate about the impact of growing Japanese car sales, especially on hitherto protected markets, after the internal EC market comes into being in 1993.

In the US, the Japanese have built considerable car-making capacity, adding to the over-capacity which has depressed the market. Japanese companies are moving to an annual output of 2.5m vehicles there in the early 1990s.

Billy, France, Britain, Spain, and Portugal all restrict the entry of Japanese vehicles into their markets. The debate in the EC centres on how the transition from such bilateral curbs to a uniform European approach can be made.

## Ozal could lift communist ban

By Jim Bodger in Ankara

BANS ON Communist and religious parties in Turkey could be lifted without fear, President Turgut Ozal said yesterday.

In an interview with the FT before a cabinet meeting to discuss the question, Mr Ozal said Turkey was well balanced by comparison with other Islamic countries, having no extremists or hardliners. Islamic parties would win only 3 or 4 per cent of the vote in a general election, he said.

Last week, an Ankara state security court surprisingly released two Communist leaders, arrested on their return to Turkey in 1987 ostensibly to contest the general election that year.

## NEWS IN BRIEF

## Communists drop key Paris censure motion

THE FRENCH Communist Party, holding key votes in an opposition censure motion over an amnesty for corrupt politicians, last night dropped a threat to topple Prime Minister Michel Rocard's Socialist government, write our Foreign Staff.

Communist parliamentary leader Andre Lajoinie said after an emergency meeting of the party central committee that they would not join the conservatives in a vote for a censure motion against the Government, which would have come close to forcing the Administration to resign.

The proposed censure condemned the Government for endorsing a political amnesty which has, in practice, exonerated politicians charged with using corrupt methods to raise party funds. The doubt about Rocard's survival led to a drop in the French franc on currency exchange markets.

## Luxembourg's Nato envoy quits

Luxembourg's envoy to Nato has quit after committing a minor breach of security, Mr Jacques Poos, Foreign Minister, said yesterday, AP reports from Luxembourg.

He said in parliament that Mr Guy de Muyser, 64, resigned on April 25 after the Government learned he "had breached security rules" at Nato. Mr de Muyser will remain envoy to Belgium, Mr Poos said. Luxembourg traditionally combines the two Brussels ambassadorships.

Sources said the security breach stemmed from several trips Mr de Muyser made to the Soviet Union where he gave out Nato documents whose contents had already been publicly reported. On April 25, the Government, citing "preventive reasons", withdrew Mr de Muyser's security clearance denying him access to secret Nato papers and effectively forcing his resignation the same day.

## US backs down on CFC funding

The US yesterday backed down from a commitment to make additional funds available to help Third World countries develop alternatives to CFCs (chlorofluorocarbons), according to Friends of the Earth, the environmental organisation, writes John Hunt.

Ms Fiona Weir, air pollution campaigner for FoE, said that this was made clear by Mr Richard Smith of the US State Department at a Geneva meeting of the signatory countries of the Montreal Protocol, the agreement to phase out CFCs which are the main source of damage to the ozone layer.

She said the US announcement came under attack from representatives of Japan, Australia, Scandinavia and the European Community at the meeting.

Officials were discussing methods of establishing an aid programme to help the Third World avoid the use of CFCs in aerosols and refrigerators. Ms Weir, who was an observer in Geneva yesterday, said that at a previous meeting the US, together with other member countries, had agreed to provide additional funds for such aid.

But she said that yesterday Mr Smith said that the aid should not come from new money but from the redirection of World Bank funds. The decision would be a blow to the Montreal Protocol meeting in London next month.

## Soviet nuclear plant planned

A Soviet nuclear export company plans to start up by the end of the century the first block of a 6,000 MW nuclear plant which will be sited 70 km from the Soviet border with Finland, writes Enriqne Tresselt in Helsinki.

Mr Anatoli Gerasov, the Helsinki-based representative of Atomenergoprom, the Soviet company, said feasibility studies in Kholmijärvi would be concluded by next year.

However, Mr Ilkka Ruusimäki, the Finnish Minister of Trade and Industry, said he had no information about the plant.

## W Germans accused over export policy towards east

By Leslie Collitt in East Berlin

WEST GERMAN companies are mainly interested in selling to East Germany and not helping to make East German industry more viable, according to a leading East German manager.

Reflecting the bitterness of many East German managers, Mr Sven-Olaf Newiak, the recently-appointed General Director of the giant Kombinat (Group) Electronic Components, said most of his talks with German companies boiled down to selling their "surplus production" in East Germany.

"West German firms are not help to us as they do not want to contribute to the future survival of our industry," he said. Mr Newiak maintained that

Japanese and French companies, as well as a British electronics firm owned by the Japanese, with whom he was talks, were showing more readiness to produce in East Germany.

Speaking at company headquarters in Teltow, just outside West Berlin, Mr Newiak said the Japanese were interested in establishing a Common Market production base in East Germany and that he was prepared to enter into a deal with a Japanese company to produce in Teltow.

"I would not be so happy to have them here but in our serious condition the Japanese would be good for us," he suggested.

The situation of his Kombinat with sales of DM2.7bn (£1.6bn) last year, crippling debts and 26,000 employees was "extremely serious but not without a chance," he said. Twenty per cent of current output was competitive, Mr Newiak said, and 50 per cent could "theoretically" be made competitive if he could get investments and rationalise production. The remaining 30 per cent of output would have to be secured.

"If I could get only DM25m to invest I could sell 500m components on the world market," he said. A West German banker visiting the Kombinat said he was reluctant to provide a loan.

Mr Newiak admitted that under market conditions, which will prevail after the introduction of the D-Mark on July 2, his Kombinat had twice as many workers as needed. It was anyone's guess whether unemployment country-wide would rise to "only" 1m or 3m in the near future.

The 43-year-old manager left the Communist Party only last January but still retains a plaque on the wall of Marx, Engels and Lenin. He received his scientific doctorate in the Soviet Union and gained intimate knowledge of the Soviet electronics industry.

"Enormous potential" existed for East German industry in exploiting its contacts

with Soviet buyers. "They are interested in better trade with us - swapping our products for energy, raw materials and machinery - and we could boost our sales tenfold to Comecon," he suggested. Compensation trade with Comecon might give the Kombinat desperately-needed time to change its product line and get costs under control.

The imminent conversion of his state-owned Kombinat into a joint stock company, however, is unlikely to change its prospects for survival. This will depend on finding Western partners who are interested in tapping the company's main resource, its highly-trained engineers and skilled workers.

Small private firms should not be restored but the right of ownership be given to those who cultivate the land. Despite a swelling of support for the UDF earlier this year among the younger generation and intellectuals, the revamped communist party has in recent weeks gained momentum. This is partly due to the personality of Mr Andrei Lukin, the Prime Minister, who is regarded as one of the few

competent officials capable of coping with Bulgaria's economic crisis. In March the authorities announced Bulgaria would temporarily suspend payment on the principle of its debt owed by the Foreign Trade Bank.

In addition, the BSP, as it is repeatedly reminded by the opposition, can rely on a vast media and organisational network with which to organise its campaign.

## Bulgarian opposition may fail to oust ruling socialists

By Judy Dempsey

BULGARIA'S broad-based opposition will return land to the peasants, introduce a market economy and guarantee rights for all its minorities if it is elected on June 10. But such promises may not be enough for it to win the first free election for over 45 years.

Its manifesto was published this week by the Union of Democratic Forces, which acts as an umbrella for nine independent political parties and is led

by Mr Zhelyu Zhelev. It coincides with several recent opinion polls which indicate that the ruling Bulgarian Socialist (former communist) party may well win 50 per cent of the vote.

The UDF consists of parties ranging from Eco-Glasnost, one of the country's first opposition groups set up in 1988, whose leaders were either dismissed from their jobs or harassed by the Zhivkov leadership, to Podkrepa, the rapidly growing free trade union movement.

The UDF's commitment to returning to their original owners or their children all land confiscated by the communists in the late 1940s is seen as an attempt by the movement to broaden its base to the peasantry. Such proposals were rejected last week by the communist-dominated Government, which recommended

small private farms should not be restored but the right of ownership be given to those who cultivate the land.

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## EUROPEAN NEWS

## BAe and Aerospatiale set up five-year joint study into a 'new generation' Concorde



BRITISH AEROSPACE and Aerospatiale of France are to carry out a five-year feasibility study on a supersonic airliner to replace Concorde, writes Paul Betts, Aerospace Correspondent. The decision on whether to go ahead with what would be a \$100m production programme would be made in 1995, Mr Henri Martre, Aerospatiale's chairman, said yesterday.

Mr Bob McKinley, managing director of BAe's commercial aircraft division, said the two companies would be studying the technical, environmental and commercial aspects of producing an aircraft capable of carrying 275-300 passengers to enter service between 2005-2010. The 13 Concorde in operation on British Airways and Air France transatlantic routes are expected to be retired in 15-20 years' time.

Any second generation supersonic airliner (an artist's impression of which is pictured left) is expected to have a longer range than Concorde to enable it to make non-stop flights across the Pacific.

## Madrid economic policy on the line at union talks

By Peter Bruce in Madrid

THE Spanish Government and trade unions are due to begin a round of negotiations today that could make or break Madrid's fragile efforts to slow the country's buoyant economy without dragging it into recession.

The two sides will start the second phase of their conversation in the wake of a warning from the International Monetary Fund that wage agreements are spinning out of control so quickly they could threaten economic gains made since Spain joined the European Community in 1986.

Employers are setting pay deals at around 8.6 per cent, more than a full point up on last year and well ahead of an already rising rate of inflation.

The Government, which has been generous this year in meeting union pension and minimum salary demands, has now invented what it calls a "competitiveness pact", a thinly disguised wage agreement designed to ensure that any real increases are offset by growth in productivity.

Few people question the need for a combined effort to bring the economy into line. Despite a tough credit squeeze imposed by the Bank of Spain more than a year ago to cool the economy, inflation, money supply and credit growth are all increasing uncomfortably quickly.

There is no sign of interest rates falling from their 16 per cent levels, and the strong

peseta is hurting industry.

The credit squeeze is causing unexpected damage to industrial production. Companies, mainly in the public sector, have begun to issue their own commercial paper to generate new funds to finance exports and investments. That, in turn, is making it harder for the Government to ease its lending restrictions.

Mr Felipe Gonzalez, the Socialist Prime Minister, is looking for a deal to last through to the end of 1993 and is trying hard to clear the way for agreement on issues the unions feel strongly about. In an interview late last month, Mr Gonzalez made it clear he felt employers were hiring too many people on temporary

contracts, as permitted by a law introduced five years ago. "I have to say that if there are any excesses (in the labour market) it is in the hiring of people on temporary contracts for jobs that would normally be considered permanent," he said.

The Government had promised the unions they would be allowed to vet all job contracts. But trouble flared earlier this week when the authorities appeared to back down and referred only to temporary contracts. The law recognises certain jobs as being, by nature, permanent, and the unions badly want the right to check contracts. The dispute could even delay the start of the talks.

Overall, though, the tone is conciliatory, and a far cry from the atmosphere two years ago when the country's biggest union, the Union General de Trabajadores, split from the Socialist Party over the conservative drift of government policies.

In the first phase of *concertacion* in January the Government made concessions worth close to \$3bn (£1.75bn) to meet union demands. It has been criticised, not least from within the Bank of Spain, for undermining efforts to cool the economy - less than a year after it succeeded in placing the peseta with the "disciplined" exchange rate mechanism of the European monetary system.

## Hungary opposition wants rapid pull-out from Pact

By Nicholas Denton in Budapest

HUNGARY'S largest opposition party yesterday called for the country to withdraw from the Warsaw Pact in a surprise move which will exacerbate growing tensions within the governing coalition.

The Liberal Alliance of Free Democrats tabled an emergency parliamentary motion to restore the declaration of the revolutionary government of 1956 withdrawing Hungary from the Soviet-led military bloc.

The resolution said that the Government should immediately remove Hungarian armed forces from the joint command of the organisation even before negotiations with the Soviet Union on the withdrawal from the Warsaw Pact are complete.

Morevoer, leaders of the Independent Smallholders'



Antall: new challenge

main parties was welcomed by the international financial community and many Hungarian commentators as inaugurating a stable democracy in Hungary and ensuring a working government.

But the Christian Democratic People's Party, the main party of the conservative coalition, now says it does not accept the agreement and will give only passive support to Mr Antall's Government. The party has, however, indicated that a concession by Mr Antall on ministerial posts may be enough to bring it back into the fold.

Potentially more damaging is the widespread opposition to the deal with the Free Democrats within Mr Antall's own party. Mr Csaba Kiss, the Forum's spokesman, admitted that "the division is very deep."

Any retreat to dissipate the growing tension within the coalition would undermine foreign confidence in Hungary's new Government and in Mr Antall's authority. Despite Mr Antall's declarations of Hungary's willingness to fully service its debt, discounts on Hungarian debt - previously minimal - have grown to 15 per cent since the Forum's election victory.

Party, the Forum's main coalition partner, responded favourably. "It is impossible for us not to support it," said Mr Jozsef Torgyan, leader of the Smallholders in parliament.

This new challenge to Mr Antall's control over his party and the coalition comes amid mounting disaffection with the last week's pact under which the Forum gave the presidency to the Free Democrats.

The Forum leader forced the agreement through his party and did not consult the rest of the coalition. At the time, the reconciliation between the two

## Commission toes the freer British line on takeovers

TAKEOVERS ARE a good thing because they allow the market to pick its own winners and enable industry to restructure quickly, expanding and changing to meet new market challenges. They are essential if Europe is to compete against Japan and the US.

This typically Anglo-Saxon view was stated clearly by the European Commission this week, as it announced its new collection of measures to reduce barriers to takeovers.

Its plans, taken with the 29 existing measures in the area, could mean a change in the behaviour of many continental companies, and would extend the relatively relaxed takeover principles accepted in the UK to the rest of the Community.

Lucy Kellaway reports from Brussels on the latest proposals to ensure a level playing field for pan-European mergers and acquisition activity

The new proposals would limit the ability of companies to swallow poison pills, restrict the issue of non-voting shares and make it easier for shareholders to dismiss non-performing directors.

They are in response to British pressure to do something about the "lopsided" slope of the European takeover field - with 80 per cent of all takeovers in the UK, and hostile bids on the Continent still very rare.

In particular the measures would mean that:

- Boards of directors could be dismissed by a simple majority of shareholders.
- Companies could not buy back shares beyond 10 per cent of their equity without calling an extraordinary general meeting for approval.
- Purchases of a company's shares by its own subsidiaries would be included in overall limits of share buy backs.
- A subsidiary's shares in its parent would have its votes suspended if a takeover for the parent had been launched.
- The restrictions on non-voting shares would be further limited. The issue of non-voting shares (currently permissible so long as they have other compensating advantages attached to them) would be limited to 50 per cent of the capital.
- It would no longer be possible to limit the number of votes that any individual can hold.

The Commission has decided

to make the proposals in the form of amendments to three existing directives, two of which are awaiting agreement and one of which is already in force.

The measures would make a comprehensive collection, hitting at almost all the technical barriers to takeovers, and addressing most of those highlighted in two recent consultants reports prepared last year by Coopers & Lybrand and Booz Allen.

Despite the breadth of the Commission's plans, the likelihood of them leading quickly to a more takeover-friendly Europe is doubtful. First, as last year's reports pointed out, most of the barriers to takeovers are cultural rather than technical.

The very thrust of the scheme is controversial, as many countries are ideologically opposed to the takeover culture; moreover the new amendments to existing directives may simply add to the difficulties already encountered in getting them approved.

The fifth directive, which has been awaiting agreement for almost 20 years, contains some 150 different articles, covering such issues as the duties of directors, the rights of minority shareholders and the conduct of annual general meetings.

Although most countries have problems with some parts of the directive, the most serious block is a proposal for worker participation, which continues to meet the unbending resistance of the UK.

By contrast, the 13th directive, which covers the behaviour and conduct of takeover bids, is making slightly better progress.

It lays down that a 33 per cent shareholding must trigger a full bid, specifies bid timetables and provides for a supervisory authority in member states to police the behaviour of parties during a bid.

However, there are doubts from many member states. Even those countries which are in favour of Community measures disagree on the flexibility of the system.

Britain would like the bodies in member states to be given considerable leeway in interpreting the rules, while the French and Italians would rather all was written into the directive at the outset.

Assuming these problems can be overcome, there is the further difficulty of how to make countries abide by the agreement. Of the 13 directives that have been adopted, few have been fully implemented by member states, and those that have are not widely observed.

The fourth directive, which deals with the content and publication of accounts, was meant to have been implemented by 1982. Even though nine countries have changed their laws accordingly, compliance with the rules is patchy at best in most places except the UK.

The latter has been pressing the Commission to do something, and doubtless it will shortly start to put on the moral pressure.

Information is the first stage to the takeover process and if companies do not even have the most rudimentary information their way may be blocked, regardless of how many barriers have been removed thereafter.

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## WORLD TRADE NEWS

## US services sector urges White House to retain right to trade sanctions

By Peter Montagnon, World Trade Editor



Amex chief Robinson: Uruguay Round ambitions

THE US services sector wants the Bush Administration to retain the right to take unilateral action against its trading partners under Section 301 of its trade law as part of the results from the Uruguay Round of trade negotiations, Mr James Robinson, Chairman of American Express said.

"It's my observation that the service sector believes it's important to keep Section 301," he said in an interview during a visit to London

this week. Outlining the ambitions of the services industry in the round, Mr Robinson also said the sector was not just looking for promises for the future.

It wanted actual agreement to roll back some existing barriers to trade in services as part of the final package as well as a credible dispute settlement system that would allow for so-called "cross sanctions" in Gatt.

This highly controversial term describes the ability of a country

facing barriers in the services sector to exact compensation by restricting the offending party's trade in goods. It is currently permitted under US trade law.

Mr Robinson, a prominent supporter of Uruguay Round efforts to liberalise trade in services, said the US services industry would either be neutral or vocal in its opposition to the Uruguay Round result if it did not include an agreement on trade in services.

US officials have said they need strong support from a broad range of interests, including the services sector, to pilot the final agreement through Congress. This is because the agreement is likely to involve reduced assistance for some heavily protected industries such as the politically powerful textiles sector.

However, Mr Robinson's remarks suggest that the US services sector will subject any final agreement to careful scrutiny before deciding on

the strength of its support.

Though developing countries had been reluctant to liberalise trade in services, he said there was a differentiation in their position now and they were not behaving as a bloc. Also they should recognise that, without an agreement on services in the Uruguay Round, the US would step up its bilateral actions, he said.

A comprehensive Uruguay Round result was, however, still the main priority for the US, he said. Any-

thing short of that would be "a very distant second choice".

The US and other industrial countries were making progress in the services negotiations, he added. He said he had been assured by the US Treasury that, after some uncertainty, it was now prepared to see financial services included in an agreement. The US services lobby was also working to drum up support in the airline industry, hitherto a reluctant player.

## Telecoms practices to take centre stage at talks in Geneva

Hugo Dixon explains how the telephone cartel's artificially high prices damage international economic development

INTERNATIONAL telecommunications practices are moving again into the trade arena this week.

As trade representatives meet in Geneva to negotiate the extension of the General Agreement on Trade and Tariffs to services, one of the items on the agenda will be how to free the world's telecommunications markets. They are likely to authorise a new committee, which is due to meet for the first time next month, to draw up a special annex to go with the main framework agreement on services.

The rules governing trade in telecommunications services have traditionally been deter-

mined by the phone companies themselves or ministries responsible for telecommunications.

The interest of the trade ministries has been sparked not only because the telecommunications services industry is increasingly important in its own right but because it plays a vital role in enabling all other industries to trade.

Service industries such as insurance, banking and air transport are heavily dependent on telecommunications; manufacturing industries are also coming to rely on electronic means of communication to tie together operations that are dispersed across the world and to exchange orders

and invoices with suppliers in other countries.

Although there seems to be general agreement that the Gatt services negotiations should include a special telecommunications annex, discussions on the details of that annex are at an embryonic stage.

The only paper so far on the table, from the US, focuses on freeing the use of private circuits. The US is concerned that the high prices and tight restrictions on the use of such circuits is holding back the development both of private networks that are used by multinational companies for internal communication and of enhanced telecommunications

services.

However, the Gatt negotiations provide trade ministers with the opportunity to attack a much greater distortion to world trade. This is caused by the artificially high prices users are paying for ordinary international calls.

The Financial Times revealed last month that consumers across the world were being over-charged more than \$10m a year for international calls and that prices were on average three times costs as a result of cartel practices among the world's phone companies.

Although the US paper does not address this issue directly, there are several ways in

which Gatt could act to bring prices down in line with costs.

This could be done by following the US approach, which concentrates on restraining the phone companies from abusing their monopoly positions rather than challenging the right of countries to maintain monopolies for providing basic telecommunications services.

The US draft annex says users should be able to get access to basic services at "reasonable and nondiscriminatory rates". As it stands, the language is probably too vague to prevent phone companies over-charging for international calls but it could be toughened by replacing "reasonable" with "cost-based".

Another way of combating the cartel's practices would be through the general provision on transparency that will be contained in the framework services agreement. This could be a powerful tool because the cartel's practices are far from transparent.

First, it could be used to shed light on the accounting rate system, a method of sharing revenue which penalises phone companies which cut their international prices. Accounting rates are considerably above costs but it is difficult to say how far out of line they are because only the US publishes its rates.

Second, it could reveal the extent to which phone com-

panies are using their monopoly profits from international calls to subsidise local phone calls and postal services. The phone companies have traditionally argued that the cross-subsidy is large but, in most cases, their claims have not been investigated and the size of the subsidies have not been quantified.

The Gatt negotiations provide the best opportunity for tackling the international phone cartel on a multilateral basis. So long as the regulations covering international telecommunications are decided by bodies such as the International Telegraph and Telephone Consultative Committee (CCITT), whose economic committee is dominated by the phone companies themselves, the likelihood of quick change is slim.

But the involvement of trade ministries, which have a responsibility to look to the health not just of their phone companies but of their economies as a whole, offers the chance of more speedy action.

GATT



## Construction in Asia to expand 20 per cent

THE VALUE of construction projects in southeast Asia is poised to expand by 20 per cent a year over the next decade, with about \$300bn worth of new contracts coming on stream, according to Mr Kong Yee Peng, executive director of the Master Builders' Association of Malaysia, Kuala Lumpur.

The boom stems from strong economic growth among members of the Association of South-East Asian Nations (Asean), analysts said here at a regional seminar on construction, and that \$300bn could be a conservative estimate. It would be fuelled largely by infrastructural investments launched by governments struggling to match a surge in industrial activity.

The Manila-based Asian Development Bank last week forecast an average 7.5 per cent growth in gross domestic product (GDP) for the six countries which make up Asean: Thailand, Indonesia, Malaysia, the Philippines, Singapore and Brunei.

Most construction investment in the region will be seen in Indonesia and Thailand, whose infrastructures are being stretched by local and

foreign investments in other sectors. The Japanese are particularly active, Mr Kong said.

Banking credit for construction projects in Indonesia rose to \$1.8bn in 1989 from \$4.5bn in 1988, Mr H. Surana, president of Indonesia's Bank Bumi Daya, said. The figure will rise even higher in 1990 in line with the expansion of Indonesia's development budget, he said.

"Rapid economic expansion has resulted in a serious shortage of infrastructure such as highways, ports, electrical power and telecommunications facilities," Thailand's Deputy Foreign Minister Prasit Limphindhu told the seminar.

The total value of (Thailand) construction in 1989 was 221bn baht (\$5.5bn) or 12 per cent of GDP," he said.

Malaysia plans to spend 80bn ringgit (\$25.6bn) on government projects in its 1991-1995 five-year development plan, a senior Malaysian government official said.

Malaysia is experiencing an overflow of foreign investments rechannelled from Thailand, which is facing bottlenecks as industrialisation exceeds infrastructure improvements.

## UK groups win Soviet contracts

BICC Data Networks of Hemel Hempstead in the UK, part of the BICC Technologies group, and Spec, a UK technology distribution company specialising in the Soviet Union, are combining to develop the Soviet data communications market, writes Alan Cane.

Spec has won Soviet contracts worth \$2m for which BICC is supplying advanced computer communications technology including fibre optic cabling.

BICC's share of the deal will be between \$1.5m and \$2m. The first use of the technology will involve construction of a network to link 19 buildings in a Crimean industrial complex.

It is BICC's second recent east European deal. The first, worth £1m, involved the sale of computer network equipment to Hungary.

## Toyota to set up Turkish plant

TURKEY'S State Planning Organisation has granted an investment encouragement certificate to Toyota of Japan to establish an assembly plant for cars and commercial vehicles, writes Jim Bodgener in Ankara.

The project, which is in conjunction with Haci Omer Sabanci Holding, the leading Turkish industrial group, requires a total investment of \$325m and was recently approved by the Turkish cabinet with a similar one for Peugeot/Citroen.

Starting in 1993, the Toyota venture plans to make up to 100,000 units annually at a production line to be established near Adapazari in north-west Anatolia. Japan's Mitsuoka may take a 10 per cent stake. The shareholding will be split equally between Sabanci and the Japanese interests.

## Canadian interest mounts in rail link

By Bernard Simon in Toronto

ASEA Brown Boveri, the Swiss-Swedish electro-technical group, is proposing to adapt Swedish technology for a C30m (21.5km) high-speed train linking Toronto and Montreal, Canada's two biggest cities.

ABB's proposal, based on the train which comes into service between Stockholm and Gothenburg this year, was unveiled in Toronto yesterday amid growing government and industry interest in a high-speed surface link through Canada's industrial heartland.

Bombardier, the Montreal-based transport equipment company, has also expressed interest in the project with a preliminary C\$5.5m proposal. Bombardier has North American rights for GEC Alsthom's Train à Grande Vitesse (TGV) technology. Its bid depends on government funding as well as outside investment.

The Bombardier project envisages trains running at up to 340 km an hour on new track, coming into service by

1996. While the ABB train would be slower, it would use existing track and could be in service within three years. Although the high-speed trains would initially be confined to the 500 km run between Toronto and Montreal, the service if successful would be extended to Quebec City in the east and Windsor, Ontario, in the west.

William Dullforce reports from Geneva: Asea Brown Boveri's Swiss waste incineration subsidiary, W+E Umwelttechnik in Zurich, has secured a SF100m (\$42m) contract to build one of the world's biggest household refuse incineration plants for the city of Amsterdam.

The contract, in which W+E is partnered by Hollandsche Constructie Group, is an international bid contest held in accordance with the European Community's 1992 preferred rules of competition. The same partnership previously built a special waste incinerator for Rotterdam.

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## OVERSEAS NEWS

## Eight Kuwaiti pro-democracy activists arrested

By Victor Mallet, Middle East Correspondent

CONFLICT between Kuwait's ruling al-Sabah family and pro-democracy activists came to a head yesterday when the Government announced the arrest of eight Kuwaitis who have been campaigning for the restoration of parliament.

The arrests, at a meeting on Tuesday night, marked a new and more serious phase in the six-month political battle between Sheikh Jaber al-Ahmad al-Sabah, the Emir, and the pro-democracy faction led by a group of 32 former MPs.

There have already been clashes between the security forces and thousands of demonstrators over the issue of the National Assembly, but diplomats in Kuwait expressed surprise about the decision by the authorities to raise the stakes and arrest leading politicians.

Sheikh Jaber suspended the assembly at the height of the Gulf war between neighbouring Iraq and Kuwait in 1990, but held talks with the protesters this year and decided to establish a four-year interim assembly to map out the country's constitutional future.

Many of the former MPs and their supporters, convinced that Sheikh Jaber is trying to buy time and delay the restoration of parliament indefinitely, have decided to boycott the June 10 elections for the interim assembly, and most of the candidates are political unknowns.

The boycott movement has angered the al-Sabah family, which is under pressure from Saudi Arabia not to allow democratic influences to spread into the Arabian peninsula.

Among the eight arrested were Dr Ahmed al-Khatib, a

nationalist ex-MP who warned earlier this year: "We hope for peaceful change, but if people are frustrated violence cannot be ruled out."

The Government's critics include leftists and Moslem fundamentalists. They have used *dawajir* - traditional male gatherings at people's homes - to air their grievances in the absence of any other political forum.

Opposition activists said the eight were arrested when security forces stormed the *dawajir* of Mr Abdul-Mohsen al-Farhan and assaulted some of the 300 people attending the meeting. The Interior Ministry said it was an illegal gathering, but it was not clear yesterday what charges the detainees would face.

Politicians said a second *dawajir* at the home of an MP was stopped by the authorities on Tuesday. Another former MP, Sumi Moslem fundamentalist Mr Ahmad Ragir, was arrested on Monday for distributing leaflets.

In an embarrassing coincidence for the Kuwaiti authorities, an Amnesty International delegation was on its way to Kuwait from London yesterday to monitor the trial on May 12 of a group of Shia Moslems accused of subversion.

Few of the pro-democracy activists challenge the right of the al-Sabah to rule Kuwait, but they believe that freedom of speech is essential for the running of a modern state. The National Assembly's opponents, on the other hand, say it was a divisive institution which antagonised Kuwait's powerful neighbours in the Gulf.

## Saudis to open stock exchange

SAUDI ARABIA will introduce a regular stock exchange later this month, a high-ranking finance official said yesterday. AP reports from Riyadh.

Mr Ahmad al-Malik, deputy governor of the Saudi Monetary Agency, which acts as a central bank, told the newspaper *Okaz* that the bourse will be opened on May 24.

Mr Malik made the statement after a meeting of Saudi branch managers in the city of Tabuk, north of the capital Riyadh.

The kingdom has allowed dealings in shares and stocks through banks and special financial houses. Mr Malik said the future of these houses has not yet been determined.

He gave no other details on the governing statutes for the stock market or the rules and regulations for dealings.

Among neighbouring countries in the Gulf, the central bank of Bahrain is developing a stock exchange it opened about a year ago with the hope of becoming the financial centre of the region. Kuwait has an active official stock exchange, while Oman has a fledgling one.

Gulf countries have been moving cautiously with the development of stock markets after Kuwait's experience with Al-Manakh, the unofficial stock exchange which collapsed in 1982 under the weight of \$94bn of post-dated cheques. But they now want to use stock markets to prevent private Arab savings from flowing abroad.

Saudi figures earlier this year showed that the total value of shares traded in Saudi Arabia in 1989, through the financial houses, was Riyal 3.4bn (\$557m), 65 per cent up on 1988.

## Lagos monetary curbs prove their point

Our Correspondent looks at measures that cut money supply and reduced imports

THOSE African countries battling to control the two critical factors in economic recovery programmes being implemented on the continent - exchange rate and inflation - might find the Nigerian experience instructive.

The credit squeeze introduced last year by the authorities in Lagos illustrates just how effective monetary policy can be.

A year ago, inflation was running at well over 50 per cent, largely because the naira had been in free fall from N4.5 to the dollar in early 1988 before levelling off (it currently stands at N7.8 yesterday) but also because the money supply had jumped 64 per cent over the same period.

Although the Central Bank of Nigeria had posted credit ceilings limiting growth to only 2.5 per cent in bank lending, actual figures showed 25 per cent credit expansion. With the International Monetary Fund demanding effective measures to narrow the 40 per cent gap between the exchange rate for the naira determined by the auction of available foreign exchange and that ruling in the interbank market, the Nigerian authorities finally

turned off the monetary tap in April and June last year.

In April reserve and liquidity ratios were increased. But this was far less important than the May measures banning banks from making naira loans to their clients on the strength of foreign currency deposits held abroad, and instructing parastatals to shift their deposits from the banking system to the Central Bank itself.

At the stroke of a pen, the money supply was cut by almost 10 per cent and inter-bank interest rates doubled. The impact on the economy was little short of dramatic.

Businessmen who had been forced to maintain literally dozens of bank accounts as a means of scraping together enough foreign exchange at the foreign currency auctions, found themselves short of naira. With overdraft money costing at least 27 per cent, firms responded by reducing import buying orders and cutting working capital requirements wherever possible.

In many cases, their difficulties were compounded by a collapse of consumer demand in the face of rampant inflation and the credit crunch. Industrialists and retailers found themselves saddled with rapidly

growing stocks of finished goods, resulting in further cuts in the demand for foreign exchange.

So it was that within a matter of months, Nigeria was transformed from a naira-surplus economy to naira drought. The impact on inflation and in the foreign exchange market was immediate.

The gap between the auction and parallel market rates of exchange fell from more than 40 per cent early in 1988 to around 15 per cent earlier this year. Inflation, which on the official index, had peaked at 57 per cent year-on-year in March, had fallen to 38 per cent by December. Indeed, in the latter half of the year, the price index fell by some 5 per cent.

But the success of monetary policy brings problems of its own, notably pressure which puts some of the smaller banks at risk.

In the last four years, the number of banks has more than doubled from 41 - 29 commercial and 12 merchant - to close on 100. Many of the newer banks came into the market to exploit the foreign currency auction system, whereby every approved operator was guaranteed a minimum

application of dollars. Until the mid-1989 credit crunch a bank licence was almost a licence to print money, by dealing in the foreign exchange market.

This no longer applies, and the air is thick with dire forecasts of a banking crisis and enforced bank mergers as some of the smaller banks go to the wall. Indeed, last year the authorities had to provide a safety net for some banks whose dependence on parastatal deposits was so great that they became technically insolvent almost overnight. Fortunately, Nigeria does have a government-backed deposit insurance scheme which guarantees the funds of smaller depositors.

For the banks sharply higher interest rates are a decidedly mixed blessing. The lucrative foreign exchange business has lost much of its attraction, while those banks that depended largely on either parastatal deposits or on inter-bank funding continue to have a torrid time.

The likelihood is that there will be a shake-out in the industry over the next two years, particularly if the tight monetary stance is maintained. While the 1990 credit guidelines allow banks a 12.5 per

cent rate of credit growth compared with last year's 10 per cent, the ceilings will this year apply to all credit granted to the private sector, whatever form it takes.

As usual, the smaller banks are allowed to expand their credit more rapidly, but the signs are that - so long as the public sector deficit is curbed - high interest rates will prove much more effective than credit ceilings, as in 1989, in controlling money supply.

Government borrowing is the joker in the pack - the more so as the return from military government to civilian rule in 1992 looms ever larger. If the authorities can keep a tight rein on their spending and borrowing - which will become increasingly difficult in the run-up to 1992 - then it should be possible to start easing the squeeze next year, especially since inflation will continue to slow.

At the same time, bankers are right to warn that a policy of squeezing the private sector while turning a blind eye to public spending - on defence, on the new political parties, and on political patronage generally - will do nothing for business confidence, investment and job creation.

## Seven civilians killed in Kashmir

SEVEN civilians were killed and 16 injured yesterday in street battles in the northern city of Srinagar, Kashmir, between Indian security forces and Moslem militants, police and hospital sources said, Reuters reports from Srinagar.

Militants threw grenades in a bold mid-day attack, injuring two paramilitary police in sandbagged bunkers in the city's Lal Chowk market. Hospital sources and wit-

nesses said five civilians were shot dead on one street when police opened fire. Police said another two civilians died in crossfire.

Srinagar is the summer capital of India's Jammu and Kashmir state, where the Moslem militants are seeking independence or merger with Pakistan. Witnesses said they did not see the attack on the convoy and that troops appeared to fire at random on crowds after

the grenade attack in the Lal Chowk market.

The Moslem revolt has heightened tension between India and Pakistan, which fought two of their three wars over Kashmir.

Pakistan controls one-third of the strategic territory and Delhi has told Islamabad to halt the infiltration of militants into Indian territory. Islamabad denies arming and training the militants.

## Aoun seeks to halt ships

By Lara Marlowe in Beirut

GEN Michel Aoun yesterday issued a communique forbidding "local and international maritime agencies" from serving any port in Lebanon's Christian enclave, intensifying the "war of the ports" between Christian leaders in Beirut. The Phalangist militia responded by firing rockets from speedboats off the coast of East Beirut at Gen Aoun's positions.

Gen Aoun's artillery then shelled the 28 mile coastline of the Christian enclave, including the militia's ports at Jounieh, Amsheet and Byblos. A barrage of explosions was heard throughout the afternoon. At least 30 people were reported killed and 43 hurt. The militia has blockaded Gen Aoun's makeshift port at Dbaye, between Jounieh and Beirut, since April 23.

## King of Nepal still sitting on top of a political volcano

K.K. Sharma, recently in Kathmandu

THIS King of Nepal is sitting on top of a political volcano in spite of the restoration of democracy, says Mr Rishikesh Shah, a former Foreign Minister of Nepal.

As one of the leaders of the successful opposition movement to force the King to accept limitations on his power, Mr Shah's point of view may come as some surprise. But back in Kathmandu after years of exile in India and still facing charges which carry the death sentence Mr Shah maintains that the battle between left and right is not yet over and could still bring anarchy to the tiny Himalayan kingdom.

King Birendra, the queen and those who have the sovereign's ear, a coterie known as "the palace", are involved in the new phase of the tussle between democrats (who form the interim government) and the extreme right.

The unexpected violence that followed the accession to power by the coalition led by Mr Krishna Prasad Bhattarai of the Nepali Congress was part of the continuing tug-of-war that is expected to continue until a new constitution for the country is hammered out in the next four to five months.

The King has accepted that he will become a constitutional monarch. But this may barely diminish the absolute position he held before he was forced to withdraw the ban on parties,

or turn him into a mere figurehead.

The interim government and the king are unhappy with both extremes. The next few months will see hard bargaining between them on how much power the monarch still wields as a living god by the people, will have.

A commission is to be set up to formulate a constitution within 90 days.

The King's own position is difficult to determine because of his continuing inaccessibility, although Mr Bhattarai insists he has been assured by the sovereign that he will be guided by the advice of the council of the ministers. If he the King does not follow their advice, Nepali Congress and left-wing members of the coalition say his throne will be in peril.

However, the King is under pressure by members of the extreme right to insist on certain discretionary powers that will protect members of the coterie that has ruled Nepal for the last 30 years.

A powerful group of more than 150 members of the dissolved national assembly have formed their own political party which claims its main purpose is to guard against violence from extreme communists.

However, the party is much more likely to guard vested interests developed in the three decades of a partyless

system and seek to win the approval and backing of the King. If this happens, uncertainty and instability could lead to anarchy in Nepal.

The curious position is that everyone in Nepal, with the exception of a small militant group of communists wedded to violent struggle, wants the king to remain.

"In this country of diverse people, we need the king as a symbol and protector of our unity. Without him, we could be torn apart," said Mr Man Mohan Adhikari, a theorist belonging to the left wing groups in the government.

This view is shared by the Nepali Congress led by the ailing and aged Mr Gensh Man Singh and others as well as by the numerous groups that fought for 30 years against "rule by peremptory command" by the king. Unless he makes a rash move, the king will surely survive.

But this cannot be ruled out. Already people are restive because of a widespread feeling that the government is dithering on various issues.

These include inquiries into allegations of widespread corruption by the "palace" coterie, the failure to come up with a package of economic reforms and the slow movement to settle the differences with India over trade and related issues that have caused considerable hardship in the country.

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## OVERSEAS NEWS

Roh Tae Woo elected to two year term as party president

## S Korean students fight running battles in Seoul

By John Ridding in Seoul

THOUSANDS of students fought running battles with riot police in the centre of Seoul yesterday in the worst protests seen in the capital in over a year.

Violent clashes were also reported in several other cities as an estimated 45,000 students nationwide protested against the ruling Democratic Liberal Party which held its inaugural convention earlier in the day.

In Seoul, students attacked office buildings and threw rocks and fire-bombs at the police who responded with volleys of teargas fired from armoured vans. Fire-bombs were thrown at the US cultural centre, and near the city hall and a number of the capital's tourist hotels police were temporarily outnumbered by the protesters.

Two police vehicles were set on fire outside the Lotte hotel. The students shouted for the dissolution of the DLP, which they described as dictatorial and undemocratic, and the resignation of President Roh Tae Woo.

The DLP was formed at the end of January through the merger of two opposition parties and the former Democratic Justice Party. The merger

ended the unprecedented situation of an opposition controlled National Assembly and gave the new ruling party a two-thirds parliamentary majority.

But a series of social and economic concerns and the emergence of divisions between the constituent parties of the DLP have prompted a fall in its support. According to a poll conducted by one of South Korea's daily newspapers, the government's popularity has fallen to its lowest level since President Roh took office in 1988. Earlier in the day, President Roh was unanimously elected to a two year term as President of the DLP.

He then named Mr Kim Young Sam, head of the former opposition Beunification Democratic Party as party chairman, the number two position.

In his speech yesterday, President Roh expressed regret for the disappointment and concern which the DLP had created through internal divisions. "The process to democracy for the past three years demanded a costly sacrifice and the pain continues," he said. "But we will realise stability through consistent reforms and will achieve development based on stability."

Earlier this week he made a statement on national television in which he promised that pressing social and economic problems, including rising inflation, real estate speculation and housing costs, would be resolved by the end of the year.

The DLP also indicated that it will push for a revision of the constitution to create a parliamentary cabinet system after President Roh completes his five year term in February 1993. The party platform stated that "the DLP will embody a parliamentary democracy in which the parliament and the cabinet will be jointly responsible to the people."

Opposition parties voiced strong criticism of the merger. The Party for Peace and Democracy, the largest opposition group, described the new party as "anti-democratic, non-national, unethical and non-historic" and said it merely reflected the desire for power on the part of the leaders of the constituent parties.

The fledgling Democratic Party, created by members of the former RDP, described the DLP as "an illegal political group which should be dissolved immediately."



President Roh waves the new flag of the Democratic Liberal Party at the start of its first convention in Seoul yesterday

## Bush braces for challenge to his China policy

Lionel Barber on details of the Washington debate

FIVE MONTHS after he despatched a secret high-level mission to Peking, President George Bush is still waiting for a political pay-off from the Chinese government.

Peking's failure to respond is a disappointment for Mr Bush who believes - with a passion - that he knows best how to deal with China.

It also weakens his hand with Congress as he braces for the next major challenge to his China policy: the annual decision on whether to renew China's Most Favoured Nation (MFN) trade status, which provides the most advantageous tariffs to a trading partner's imports.

Last year, US-China trade reached \$18bn. The bulk (\$13bn) flowed into the US, making it China's single biggest export market, surpassing Japan. Without MFN, the competitiveness of Chinese clothes, toys, watches and other consumer goods would fall dramatically.

Withdrawal of MFN would have repercussions well beyond US shores, too. The British embassy in Washington has begun lobbying Congress, warning that removal of MFN could strip Hong Kong, the

main entrepot for US-China trade, several billion dollars' worth of business.

MFN, however, is also a political tool. Since 1974, any "non-market" (i.e. Communist) country which restricts emigration is ineligible under the Jackson-Vanik amendment, unless the President certifies that MFN would promote free emigration. The law was originally intended to put pressure on the Soviet Union but Congress has come to see it as a vehicle for expressing criticism of human rights records. This year, MFN offers Congress the first chance to challenge Mr Bush since he vetoed Congressional legislation protecting Chinese students in the US.

The deadline for Mr Bush's decision on MFN is June 3, the eve of the first anniversary of the Chinese army's massacre of pro-democracy demonstrators in Peking's Tiananmen Square.

Symbolism matters. Tiananmen and the subsequent televised pictures of General Brent Scowcroft, Mr Bush's national security adviser, testifying that Chinese leadership during his second secret mission to Peking last December, evoked a raw emotion among the American public, according to polls.

But will the upcoming debate in Congressional hearings, television and the press, address more substantive questions raised by US-Chinese business ties? Is the presence of US investment a long-term force for democratic enlightenment in China, as the New York Times argued in a recent editorial? Or do US-China business links legitimise the rule of the Communists and their crackdown, as some of Mr Bush's critics contend?

And what about the World Bank development projects, currently running into hundreds of millions of dollars, which are being held up under Mr Bush's own post-Tiananmen sanctions?

On private investment, many US observers find it tricky to give an answer. Chinese students in the US - a potent force if they choose to act in concert, as they did in demanding visa protection last year - appear divided on MFN.

Even Mr Bush's most prominent critics, such as Mr Winston Lord, former US Ambassador to Peking in 1985-88, are wary of deploying the MFN weapon. Mr Lord has broken with the President after disclosure of the two Scowcroft missions, said he is appalled by the administration's "tawdry symbolism" and "undiplomatic gestures." But on MFN, he says: "It's a lot more serious to

revoke something you've already got rather than to extend it. I'm reserving judgment."

US business, which has around \$4bn of direct investment in China, with just over 900 specific ventures, has to date been reluctant to speak out. Corporate giants, such as Boeing, General Electric, General Motors, McDonnell Douglas, Motorola and Rockwell, have left the lobbying to the US-China Business Council in Washington.

Yet business views clearly count in government circles. Last July, Mr Bush granted a waiver to Boeing so it could proceed with a \$150m sale of aircraft; last December, the President waived a Congressional ban on exporting telecommunications satellites for launch by China.

These deals have the advantage of helping to correct the growing trade imbalance between the US and China - which had already reached \$18bn in the first two months of this year, a deficit surpassed only by those with West Germany, Japan and Taiwan.

Those most hostile to the Chinese leadership argue that the trade imbalance would be wiped out overnight if MFN were withdrawn and Chinese goods faced the punishing 50 per cent trade tariffs. But if Peking reciprocates, then Chinese tariffs would be higher for US-made components going into joint ventures.

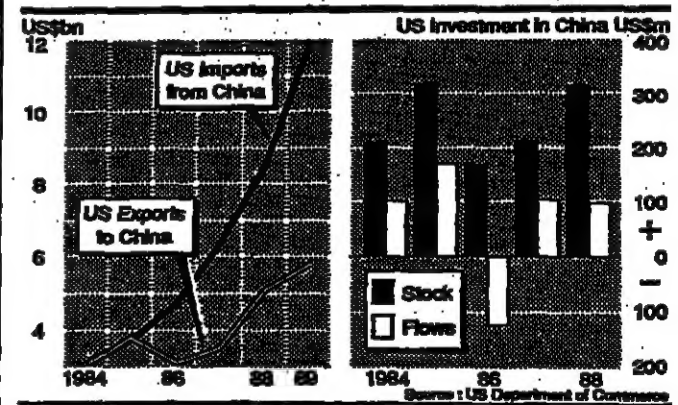
The British are less reticent. In contrast with the Hong Kong government, they have begun to press for continuing MFN status for China. According to Mr Peter Lo, Hong Kong government minister for trade and economic affairs in Washington, some \$500m of Chinese goods passed through Hong Kong last year.

Much of Hong Kong and US investment is concentrated in southern China, where 10,000 businesses employing more than one million people, are dependent on MFN.

"These people would find it virtually impossible to scale the high tariff walls if MFN is revoked," said Mr Lo.

Washington experts believe that the Chinese will make some gains before June 3, but not in a way which appears to be the result of US pressure.

One sign was the recent lifting of martial law in Tibet. "It could simply be a statement of the value which the leadership attaches to foreign investment," says one former Reagan administration official who dealt with China, "but it will be looked at from the point of view of Chinese self-interest."



## Australian rail reform could cost 38,000 jobs

By Kevin Brown in Sydney

UP TO 38,000 employees could lose their jobs under proposals presented yesterday for the reform of Australia's heavily subsidised railway system.

The proposals of the quasi-governmental Railway Industry Council are part of a programme of structural reforms being considered by the Labor Government to modernise the Australian economy.

The council's report - Rail Into the 21st Century - says a commercially viable national rail network is achievable, but warns that it will have to be substantially smaller than the existing system.

Australia currently has seven separate publicly-owned rail authorities - six run by the states and one by the federal government - operating just over 37,000km of track, of which 18,600km carry passenger services. All but the federal Australian National Railways are heavily subsidised.

The council's report says the seven systems lost A\$1.5bn (US\$1.1bn) in 1988/89, and would still be losing money heavily by 2001 unless radical changes were made.

"All loss-making freight and passenger services will need to be critically re-examined," said Mr Gavin Keneally, chairman of the council.

The report puts forward a series of options under which between 30,000 and 38,000 of the 54,000 railway jobs would be lost over the next decade.

It says some "community service obligations" could be retained, such as loss-making rural services, but calls for costs to be clearly identified.

The report is likely to meet resistance from state governments and railway trade unions, even though the council includes representatives of both.

Mr Jos Sibberas, vice-president of the Australian Railway Union, said the railways needed more investment and more staff rather than less track.

Many of Australia's long distance railway services have been significantly improved in the last decade, and the country boasts several world-class trains, including the Indian Pacific from the east to west coasts, and the Ghan, from Adelaide to Alice Springs.

A feasibility study is also under way into plans for a privately financed and operated very fast train, which could eventually run at 350kph between Melbourne, Canberra, Sydney and Brisbane.

However, some long distance services are very slow, partly because of lack of co-operation between the various railway authorities. Many local commuter services are also poor, with ageing rolling stock.

A collision between an intercity passenger train and a steam-powered excursion train injured 100 on Sunday was probably caused by a signalling fault, Mr Bruce Baird, New South Wales Transport Minister, said yesterday.

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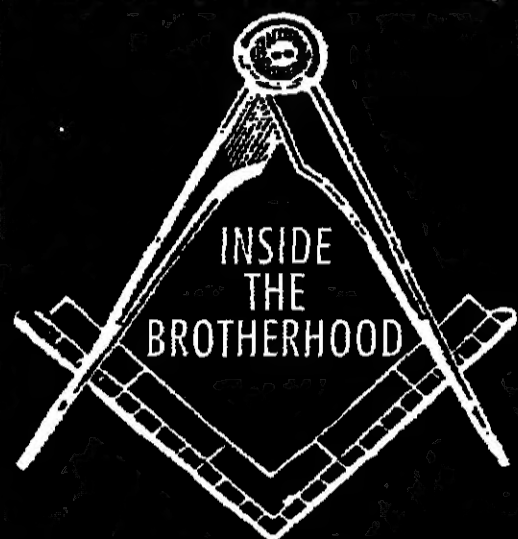


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## Labour and Likud may enter pact talks

By Hugh Carnegie in Jerusalem

THE LEADERS of Israel's Labour party said yesterday they were ready to discuss reviving a national coalition with the Likud party of Mr Yitzhak Shamir. Some openly proposed softening the party's commitment to US terms for Israeli-Palestinian peace talks in order to do so.

But the move to pre-empt the formation of a Likud-led narrow right-wing coalition immediately exposed deep divisions within Labour that have opened up since Mr Shimon Peres, the party leader, failed last month to form an administration committed to peace talks.

Responding to proposals for a renewed Likud-Labour Government by the small National Religious Party, top Labour figures decided, in the words of one party official, "to open the door without making declarations which would preclude a successful outcome."

This implied backing off from Labour's insistence that Israel accept terms for peace talks put forward by Mr James Baker, the US Secretary of State. Mr Shamir's refusal to do so caused the collapse of the Likud-Labour coalition in March. Yesterday Mr Shimon Peres, now leading a caretaker government, said he was considering Labour's position.

Mr Yitzhak Rabin, the powerful former Labour premier who wants to supplant Mr Peres, led the call for a shift in the party's stance. "The peace process does not end with an answer to Baker. In principle, Labour won't remain in a government which has no peace process, but it won't insist on matters it was ready to accept before the government's fall."

At issue is the direction Labour should now take. Mr Rabin and his supporters are chiefly concerned to stop Likud forming a government supported by far-right and religious parties, believing it to be dangerous for Israel.

Others want Labour to go into opposition, hoping that a Likud-Labour coalition would result in further stalemate.

## Botswana prosperity brings growing pains

The country's wealth has left it with a dilemma over development, writes Mike Hall

A FLOCK of white-robed women will mob any traveller who stops at a certain place south of Francistown. At least 10 of them - screaming "me first!" - will surround a vehicle and try to stuff bundles of cash through the windows into the hands and pockets of passengers.

The women live by illicit trading and dealing in foreign currency, selling Botswana pula to visiting Zimbabweans and buying it back from tourists. The method may be despicable, but their earnings clearly cover the risk of the odd driver taking off with a windfall.

Demand for pula is strong. And whereas almost every other African country has a thriving unofficial market for US dollars and other hard currencies, in Botswana there is none.

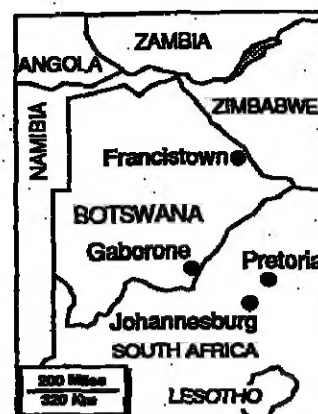
In fact, last year the pula appreciated by 3.4 per cent against the US dollar and by 15.5 per cent against sterling. Many observers believe the economy will continue to expand rapidly. But swift growth has brought problems for this semi-arid, cattle-herding nation. Less than a quarter of its 1.8m people are in the modern economy, which cannot absorb excess cash. Property prices and rentals have spiralled and negative real interest rates are encouraging borrowing for consumption.

Government efforts to help expand the economy - by putting up schools and factory shells, building roads and water transfer schemes - have fuelled a construction boom.

The Government is trying to taper off the rate of increase in spending, which is rising faster than that of revenue. This is despite a record budget surplus of P768m (\$385m) last year.

It is also worried about the ever-increasing reliance on diamonds, which now account for 65 per cent of revenue. Mr Festus Mogae, the new Finance Minister, warned in his recent budget speech that 20 per cent of recurrent spending was now coming from mineral earnings.

But many believe President Masire's ruling Botswana Democratic Party (BDP) is too cautious.



Eye for detail: gems boosted reserves to \$2.6bn in 1989

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But many believe President Masire's ruling Botswana Democratic Party (BDP) is too cautious.

They argue foreign reserves should cushion diamond market fluctuations, and other mineral developments, manufacturing, services, and especially tourism will continue to grow.

All acknowledge the need to put non-renewable mineral wealth into renewable production. Diamond mining has provided few jobs but raised expectations.

Unemployment was a key issue in the general election at the end of last year. Although the main opposition party, the left-wing Botswana National Front (BNF), lost two of its five seats in the 38-member assembly to the BDP, it increased its share of the vote by 7 per cent.

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It also improved its already solid majority in the capital Gaborone and made significant gains in urban councils.

Although three-quarters of the population of Botswana live in rural areas - and many exist there only by heavy subsidies - agriculture has little growth potential, mainly because of the harsh climate.

Manufacturing is seen as probably the biggest job provider, and the Government seems committed to creating a better climate for investment. Botswana needs to absorb 30,000 school leavers a year. Job creation is now running at a third of that.

The textile industry is one of the more recent growth areas, and efforts are underway to attract firms from Hong Kong. But some analysts believe the Government is still overly cautious.

The recent budget, for instance, slapped a 10 per cent sales tax on almost everything. And a "one-stop shop" for investors, although six years old, is still not effective due to staff shortages.

Some observers believe that, deep down, many officials are suspicious of foreign investors. For the majority of Botswana, entrepreneurship is still limited to dealing in cattle. The women dealers near Francistown are, of course, a notable exception.

## ANC and De Klerk seek support Islamic prisoners set free in Morocco

AFRICAN National Congress leader Mr Nelson Mandela left on Wednesday for a six-nation African tour to discuss last week's watershed talks between his organisation and the South African Government. Reuters reports from Johannesburg.

An ANC statement said Mr Mandela and an ANC delegation would visit Zambia, Angola, Nigeria, Algeria, Egypt and Libya.

Mr Mandela's departure coincides with South African President Mr F. W. de Klerk's arrival in France at the start of a trip to nine European states, explaining his programme of political reform aimed at abating power between the republic's blacks and whites.

Mr de Klerk's Government and the ANC held their first

formal talks last week and agreed on some of the steps they need to take before constitutional negotiations can begin on how to dismantle the apartheid system and introduce power sharing. While Mr de Klerk hopes his willingness to negotiate will lead to an easing of South Africa's international isolation, Mandela wants foreign sympathisers to keep up pressure for change.

ANC officials said that during his 12-day trip Mr Mandela would brief some of the thousands of ANC exiles, especially the guerrillas of the military wing Umkhonto we Sizwe (Spear of the Nation), waiting in camps for news of when they can return home.

In the tour, the 71-year-old ANC deputy president is also responding to invitations from sympathetic governments. This will be a continuation of the policy followed on his release from prison when he called on the supposed governments of Zambia, Tanzania, Ethiopia and Sweden. Mr Mandela was released in February after 27 years in prison.

In Cape Town, the ANC and the Government agreed a five-point plan to tackle major differences. They said a joint working group would discuss proposals for the release of up to 3,000 people regarded by the ANC as political prisoners.

Mr Mandela said his organisation would look hard at its 30-year-old policy of using guerrilla warfare as a tactic to achieve full political rights for the black majority.

## Islamic prisoners set free in Morocco

HUNDREDS of Islamic fundamentalists arrested after staging their biggest ever demonstration in Rabat seem to have been released as Morocco moved to counter charges of human rights abuses, lawyers said yesterday, Reuters reports from Rabat.

King Hassan announced the human rights moves six hours after eyewitnesses estimated 2,000 protesters were beaten up near Rabat's main square on Tuesday by men in civilian clothes armed with clubs and unmarked paramilitary police.

"I cannot know exactly what goes on in prisons," King Hassan said as he announced the setting up of a 37-member

consultative committee on human rights.

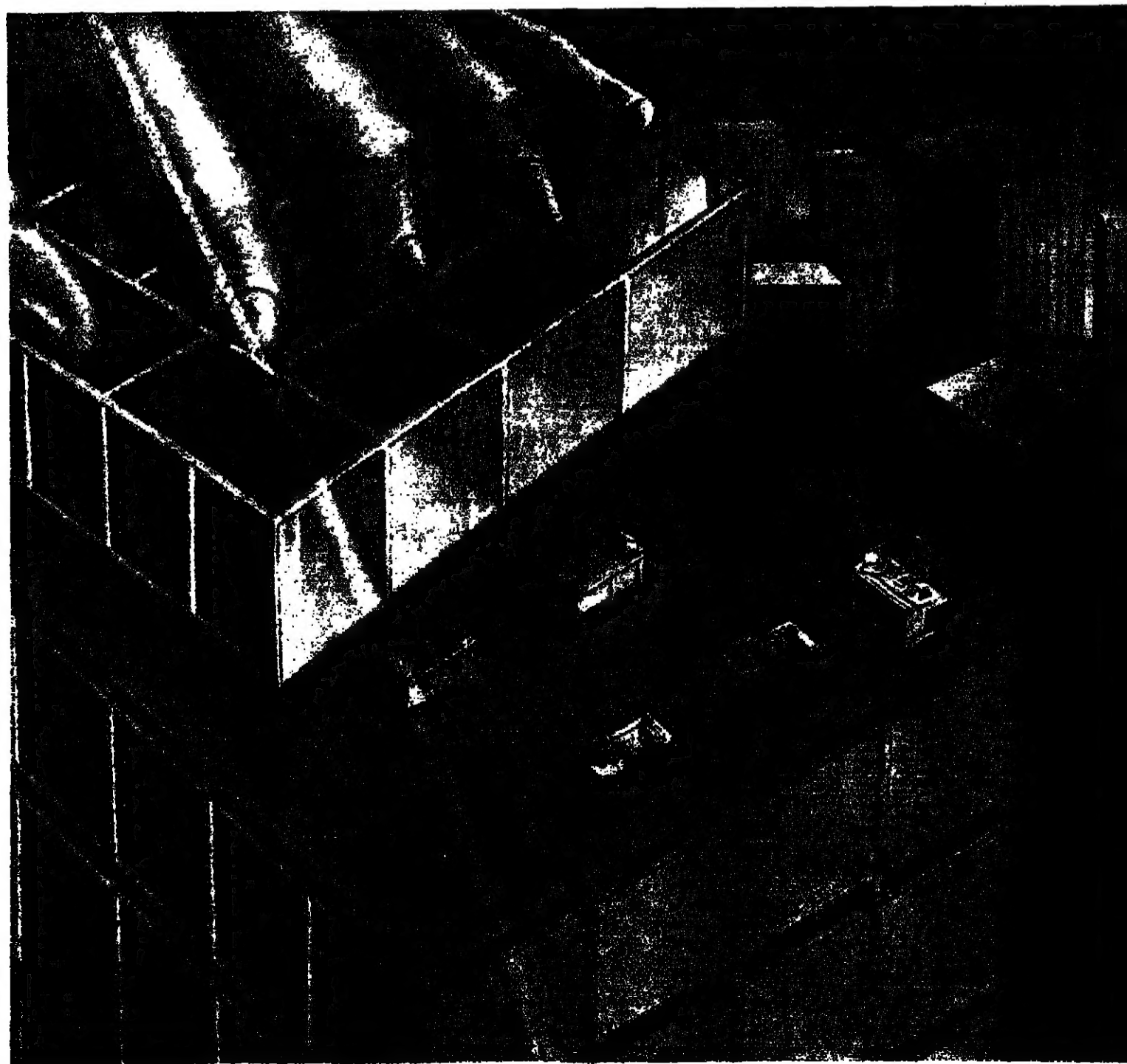
"We are exasperated... by all these reports that tend to make believe there are people in prison in Morocco for political reasons."

Morocco's so-called political prisoners were in fact subversives, he said.

Eyewitnesses said the demonstrators were beaten as they were herded into the courtyard of the Court of Appeal when they refused to move from the main square.

The demonstrators said they supported six fundamentalist leaders of the outlawed fundamentalist Adl wa Ihsane movement whose appeal was being heard at the court house.

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## AMERICAN NEWS

## UK urges Nato to keep some US missiles

By David White in Kananaskis, Alberta

BRITAIN is continuing to insist that some US ground-to-ground nuclear weapons should be retained by Nato after negotiations on short-range nuclear forces.

UK officials made this clear at a meeting of Nato defence ministers here which began preparing the way for negotiations early next year that other European countries see leading the way to removal of all ground-launched nuclear weapons in Europe.

The ministers were expected to discuss the prospect of including nuclear artillery as well as missiles in the negotiations about the difficulty of verifying nuclear artillery

shells. A "third zero", which would be in addition to the two categories of ground-launched missiles being scrapped under the 1987 Intermediate Nuclear Forces treaty, was successfully opposed by the US and Britain a year ago, but is now back under discussion.

If implemented it would involve more than half the estimated stockpile of 3,700 US nuclear warheads in Europe.

Nato's non-strategic deterrence would rely instead on weapons from aircraft - currently bombs but in future tactical air-to-surface missiles. In contrast to the ground-launched weapons, these can reach Soviet territory. However, West German officials

were anxious that Nato should not press at this stage for decisions on deploying new air-launched missiles, because of the ongoing "two plus four" negotiations on German unity and the West German elections later this year.

Nato has meanwhile dropped its insistence that talks on short-range nuclear forces should wait until agreed conventional force reductions start to be implemented.

The meeting follows last week's US decision to drop plans for a new missile to replace the Lance deployed in Europe, as well as new 155mm nuclear artillery shells. The planning staffs were wrong-footed by the announce-

ment, which they had expected to be made at a later stage of the discussions.

The ministerial Nuclear Planning Group, which excludes France, held wide-ranging discussions on changes in the European security outlook and reviewed the results of a series of studies it ordered six months ago on the future role of nuclear weapons.

UK officials said that the redefinition of nuclear strategy, which is due to continue over the coming months, should not alter Nato's policy of reserving the possibility of a first nuclear strike. Officials said that this part of the alliance's strategy was "sacrosanct".

## Budget talks agreed in US

THE White House and Congressional leaders of both parties will start formal talks next Tuesday to negotiate a multi-year budget deficit reduction package, Peter Riddell writes from Washington.

The two sides yesterday agreed on the format of talks to be completed "as quickly as possible", though without a deadline.

Mr Martin Fitchwater, the White House spokesman, noted varying estimates of the scale of measures required, ranging from \$45bn up to \$100bn.

He also said that it was clear to both sides that "severe action needs to be taken to reduce the deficit and keep the economy on a sound track".

## Challenge mounted to cellular phones

By Roderick Oram in New York

MILICOM, a small New York company, has been granted licences to run experimental Personal Communications Networks, a form of cheaper mobile telephones, in two US cities.

Approval of Millicom's request by the Federal Communications Commission is the first step in developing a new technology to challenge the existing cellular licensing monopoly operating in the US.

"This is the source of a new form of communications in the next century," said Mr Shelby Bryan, Millicom's chairman. A PCN system is already being tested in the UK by a consortium including Millicom, British Aerospace, Pacific Tele-

sis (the California Bell telephone company), and Matra (the French aerospace and industrial group).

Mr Bryan said Millicom would probably involve US and foreign partners in its test PCNs in Orlando, Florida, and Houston, Texas.

PCNs, which use a different segment of the radio spectrum for their signals than existing cellular services, have the potential of offering communications via smaller, lighter and cheaper hand sets than those currently used. "Existing cellular services will evolve into something more like PCN," Mr Bryan said.

Analysis believes, though, that PCNs face considerable

political, technological and financial hurdles in the face of the entrenched competition from existing cellular services.

Each US city is at present served by two cellular licences, one run by the local wireless telephone company and the other by an independent. Increasingly the second licence has been taken over by a wireless company based in a different part of the country.

The system has led some regulators and consumers to accuse the monopolists of abusing their market power by overcharging customers and hindering development of mobile communications technology. The cellular industry vehemently rejects this.

## Moscow may face stiff EBRD loan limits

By Peter Riddell, US Editor in Washington

SIGNIFICANT limitations on Soviet borrowing from the proposed European Bank for Reconstruction and Development may continue after the initial three years of tight restrictions, Mr David Mulford, the Treasury under-secretary for international affairs, stated yesterday.

US participation in EBRD was yesterday generally supported by members of the House Banking subcommittee on international development, finance, trade and monetary policy, though concern was expressed about the scale of Soviet involvement.

After considerable US pressure, Soviet borrowing for the first three years has been limited to its paid-in capital (a maximum of \$12bn) and restricted to loans, the private sector and competitive enterprises.

Any change in the Soviet borrowing status after three years will require an 85 per cent vote in favour.

Mr Mulford said yesterday this might not mean total freedom for the Soviet Union to borrow and suggested that a number of countries, including Japan, might be cautious about expansion. There is, he said, a chance of "significant limits on borrowing".

The administration faces tough arguments to persuade Congress to authorise both US involvement in the EBRD and the 60 per cent increase in Russian investment in the EBRD. The World Bank affiliate that promotes private sector investment in developing countries, and may delay World Bank plans to create a special environmental fund.

In a meeting with journalists last week, Mr Mulford said the West German development aid minister, disclosed that the US said it is unable at this stage to contribute to a capital increase at the EBRD.

The corporation, which is playing an increasingly important role in helping eastern European countries move to market based economic systems, is seeking to increase its capital to between \$2.5bn and \$3.5bn from \$1.5bn at present.

Mr Mulford yesterday expressed some impatience that development banks such as the EBRD, the Asian Development Bank and the African Development Bank had not a great deal of interest and expertise in, or commitment to, private sector development or direct private investment. He said this was a serious weakness in these bodies.

The administration will not seek legislative approval for the IMF quota increase until next year, but the Treasury is looking at the IMF's support for the debt strategy of Mr Nicholas Brady, the Treasury Secretary, and the wide interest in helping change in Eastern Europe, where the IMF is the most active part.

The Treasury will also stress its success in winning approval for a tough access package in persuading Congress that a quota increase will not be wasted.

## IMF relieved at quotas deal

THERE was noticeable relief in the elegant Washington headquarters of the International Monetary Fund this week.

After a three-year struggle to obtain an increase in its resources, the agreement that the IMF quotas, or membership fees, should be increased by 50 per cent meant the Fund could get back to its normal business of helping countries pursue sound economic policies.

But the negotiating that accompanied the quota agreement left a nasty taste in the mouths of many officials, while the deadline of March 1993 for completion of the next quota review means that the issues of IMF resources and the attitude of the US, its largest shareholder, will not go away.

The way in which Britain and France resolved their dispute over their rankings in the Fund dismayed several monetary officials from other industrialised countries, who feared the scale of Soviet involvement.

The IMF is a body based on strict rules that must be adhered to at all costs. And yet two of its most senior members determined their membership subscriptions and voting rights on the basis of a horse trade that should lead to London becoming the home of the planned European Bank for Reconstruction and Development on the understanding that the presidency of the bank will go to Mr Jacques Attali, President Mitterrand's eco-

Peter Norman reflects on a bitter-sweet aftermath to some Anglo-French haggling

economic adviser. Moreover, the device by which they settled the dispute - an agreement by which Britain will loan part of its quota to France to give both countries joint fourth position in the Fund - was an entirely ad hoc measure and is nowhere to be found in the statutes.

Finally, although this point is disputed by Mr Pierre Bérégovoy, the French Finance Minister, the effective increase in France's quota to around 5.5 per cent from 5 per cent flies in the face of IMF policy to relate quotas more closely to economic performance.

While there was no denying that France's economy has overtaken Britain's in size, the rankings in the Fund were fixed after the Second World War, it is open to doubt whether its share should have been increased so sharply in the face of claims from other rapidly growing nations such as South Korea that their economic weight is grossly under-represented in the IMF.

The settlement of the rankings issue called into question the IMF's prestige and status that was already looking tarnished because of the atti-

tude of the US towards the Fund. The US is the IMF's biggest shareholder and has a blocking minority. But US budgetary problems mean that the days of largesse towards the Fund are over.

The way that the US crafted the plan to settle the arrears and its determination to link the issue to the quota increase saw the US Treasury extract the maximum advantage at the minimum cost to itself.

The linkage means that the quota increase could take an unusually long time to become effective. It involves an amendment to the Fund articles that needs the support of 85 per cent of the membership and parliamentary ratification in some countries.

Yet this victory for US diplomacy will cost Washington very little because it has made only a small contribution to the Enhanced Structural Adjustment Facility which will be used to finance assistance for countries "working out" their arrears.

In private conversations, European monetary officials lamented how the US assumes superpower status in the IMF without paying for it.

But short of the Soviet Union applying to join the IMF - an event which is increasingly considered a possibility - it is difficult to imagine anything that will change this state of affairs.

## US vetoes increase for investment fund

By Peter Norman

THE US is hindering progress in increasing the resources of the International Finance Corporation, the World Bank affiliate that promotes private sector investment in developing countries, and may delay World Bank plans to create a special environmental fund.

In a meeting with journalists last week, Mr Mulford said the West German development aid minister, disclosed that the US said it is unable at this stage to contribute to a capital increase at the IFC.

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The Treasury will also stress its success in winning approval for a tough access package in persuading Congress that a quota increase will not be wasted.

The US Government also refused to contribute to a pro-

## Debt relief plans may be widened

By Stephen Fidler, Euromarkets Correspondent

PROPOSALS to widen the principle of debt relief for some developing countries are drafted for the agenda of the July world economic summit in Houston.

The proposals are likely to address the problems of so-called lower middle-income countries - such as Nigeria, the Ivory Coast and Gabon. These countries - whose debt is owed primarily to governments rather than banks - fall through the cracks of the present debt strategy.

They are not helped much by the Brady plan which is designed to lower the bank debt of middle-income countries. Neither are they poor enough to benefit from the so-called Toronto terms, agreed at the 1988 Toronto summit which alleviate modestly the official debt burdens of low-income countries.

According to Western officials, there was a clear recognition at the just completed spring meetings of the IMF and World Bank of the problems faced by the lower middle-income countries.

There also appeared to be a consensus in favour of further widening the Toronto terms to poor countries outside Africa. Already, a deal has been agreed on this basis for Bolivia by the Paris Club of Western governments.

Mr Barber Conable, president of the World Bank, told a news conference "it was entirely possible" that the debt issue would be discussed in Houston.

## Other countries including Britain say more work needs to be done

needs to be done before a decision is taken on whether to establish the fund. A communiqué issued after the meeting of the development committee of the World Bank and the IMF, witnesses to such reservations. A sentence urging the Bank to "reinforce and expand its existing environmental programmes" was hastily amended with the words "and expand" being deleted from the final version.

However, the fund may still be established. Mr Wamke said that the industrialised countries needed to have such a project in hand in time for a large United Nations conference on the environment that will be held in Brasilia in 1992. He said that the fund could be established without US participation.

## Californians hit back at crime

Lionel Barber witnesses a citizens' assault on the judicial system

"ARE YOU the victim of a homicide too?" one woman asked, by way of introduction.

The event had been billed as a crime victims' picnic, an open-air group therapy session to promote reform in California's criminal justice system. Some 300 men, women and children, each wearing pink fluorescent peak hats and white name-tags, were present. Many, like the slim woman in a green summer dress, were eager to talk.

"My daughter was beaten to death by her husband," she said. "He beat her so bad that his hands were swollen twice their normal size."

"We went for murder one but they told us that if the jury failed to convict he would go scot-free. So we accepted a plea bargain. Now he's out on bail in March 1992, and he doesn't even have a parole hearing."

Her story helps to explain why more than 1m Californians have signed Proposition 115, a citizens' initiative which calls for sweeping changes in the state's criminal justice system and the rights of defendants. The strong support reflects the rise in the level of violent crime in California, and the public's perception that the present system ignores victims' rights while allowing defence lawyers to spin out proceedings.

The "Speedy Trial" initiative is specifically aimed at redressing these delays. For example, it would eliminate the legacy of former Governor Jerry Brown and the State Supreme Court led by Chief Justice Rose Bird (voted out of office in 1986).

Then, as now, the proposition overshadows this year's elections. It passed by a majority of voters it will automatically become law. Just like Proposition 13, which capped state property taxes 13 years ago, Proposition 115 amounts to an assault on liberal values and the legacy of former Governor Jerry Brown and the State Supreme Court led by Chief Justice Rose Bird (voted out of office in 1986).

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quality for the June ballot. Senator Wilson appeared at the weekend barbecue in front of Pasadena's Huntington Hotel. He was more than happy to have his picture taken with some of California's hardest suffering crime victims.

Many were white, middle-class citizens, such as Shirley and Roger DeVaul, who were arrested on charges of murdering a serial killer. Others came from throughout southern California - Bakersfield, Garden Grove, Long Beach, Orange County, Riverside and San Bernardino - each ready to relate crimes which had made their world seem unrecognisable.

The leader of MOVE (Movement of Victims Everywhere) is Mrs Colleen Thompson Campbell, 57, an artist whose son was strangled and thrown out of a window in 1982. She was arrested after attempting to use a drug deal to reimburse his computer business. Mrs Campbell spent several years trying to get both killers in court during which time her brother, a nationally known race car driver, and his wife, were murdered, assassination-style, in Bradbury, Los Angeles County. The murder remains unsolved.

Mrs Campbell appeared resilient as she urged her group to raise their hands skywards to pray for their lost ones. "One month to freedom," she shouted, with one eye on June 5. "We love you Colleen," the crowd cheered back.

The deal has a year-old lawsuit against Visa and Mastercard by the Attorneys General who alleged that Entree violated anti-trust laws and constituted a conspiracy to monopolise the US debit card business.

Entree, which deducts funds from the cardholder's bank account rather than a separate revolving credit account, had originally been intended to

lead the way towards the development of a national debit card system for the US, enabling banks to set up their own electronic funds transfer at point of sale.

Entree was designed to overcome technical problems for card issuers and retailers arising from the large numbers of retail banks in the US and the restriction on banks operating outside their own state.

Because of the controversy surrounding it, Entree had been more than moribund since its launch, with many retailers refusing to accept it. It swiftly attracted unfavourable attention from officials in several states.

## New debit card is dropped after anti-trust dispute

By David Barchard

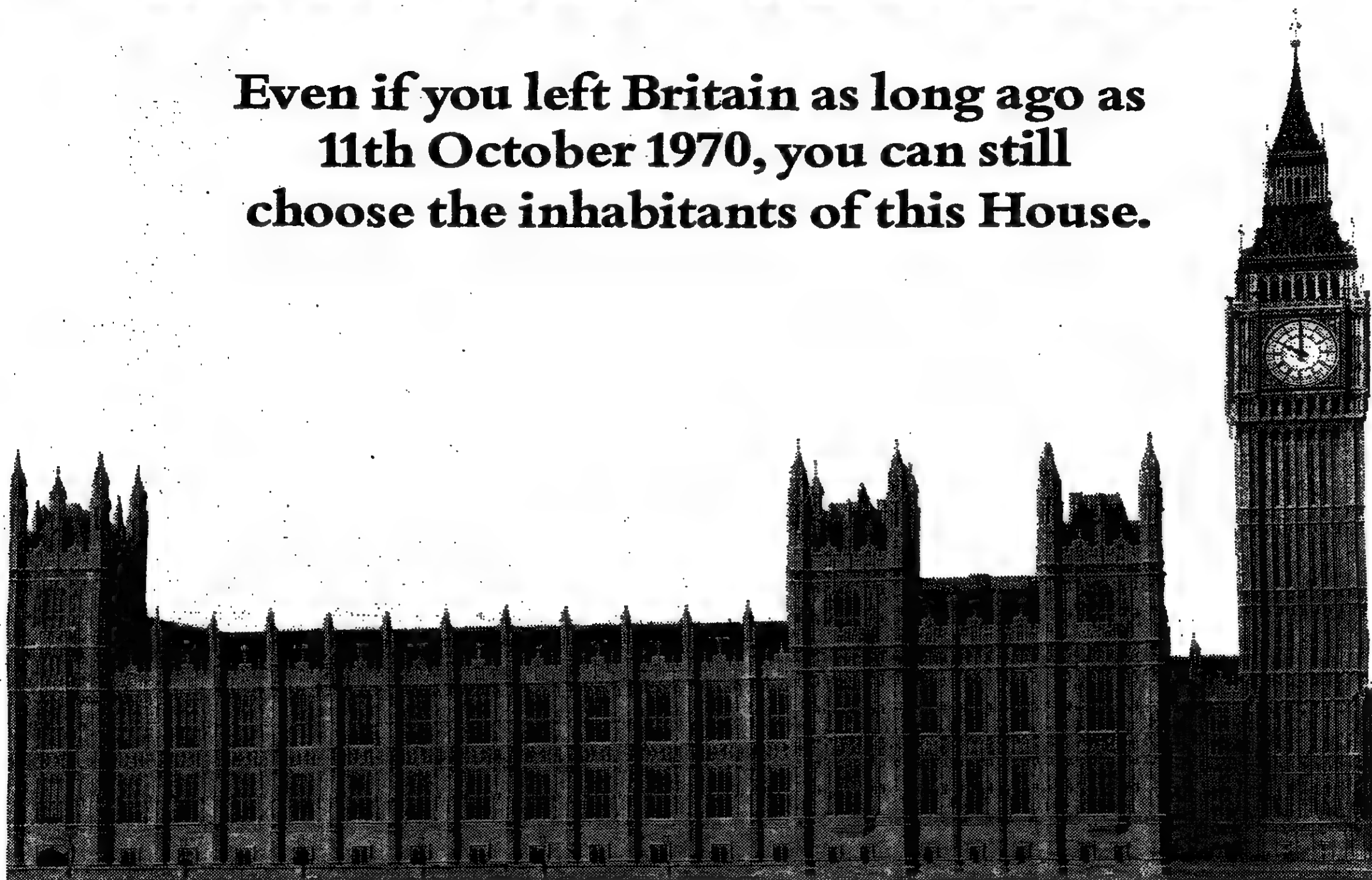
MASTERCARD and Visa, the two main credit cards in North America, yesterday formally abandoned plans to launch a joint debit card called Entree by reaching an out-of-court settlement with the Attorneys General of 14 American states.

The deal has a year-old lawsuit against Visa and Mastercard by the Attorneys General who alleged that Entree violated anti-trust laws and constituted a conspiracy to monopolise the US debit card business.



# BRITISH CITIZENS LIVING ABROAD.

Even if you left Britain as long ago as  
11th October 1970, you can still  
choose the inhabitants of this House.



Under the Representation of the People Act of 1989, important changes have been made in who can vote in UK Parliamentary and European Parliamentary Elections.

- The qualifying period for the right to vote for people living abroad has been extended from five to twenty years. That means if you left the UK as long ago as October 1970 you can still vote.
- People who left the UK before they were old enough to be included on the Electoral Register may register as overseas electors.

- You no longer need to declare an intention to return to the UK.

Your vote will be cast in the constituency in which you or your family were registered before leaving the UK.

In order to qualify you need to fill in an application form by 10th October 1990\*

To get a form and explanatory leaflet contact your nearest British diplomatic or consular post.

\*15TH SEPTEMBER IN NORTHERN IRELAND.

## DON'T LOSE YOUR RIGHT TO VOTE IN THE UK

ISSUED BY THE UK GOVERNMENT.

PLEASE INFORM ANYONE YOU KNOW LIVING ABROAD ABOUT THIS.





## UK NEWS

## Hostages in Lebanon face 'long process' for initiatives on release Government rejects Reed's claims

By Ivor Owen, Parliamentary Correspondent

MR WILLIAM Waldegrave, the Foreign Office Minister of State, yesterday rejected the view of Mr Frank Reed, the American hostage recently freed by a group of pro-Iranian kidnappers in Lebanon, that Britain had not been sufficiently active in seeking the release of its nationals.

He warned MPs in the House of Commons that there could be "a long process" when he was pressed about fresh initiatives to secure the release of British hostages held in the Lebanon.

While expressing sympathy for Mr Reed, who met relatives and supporters of the British hostages recently, Mr Hurd insisted: "He was not in a position to know anything about the efforts we have made on behalf of British hostages."

He was speaking after Mr Douglas Hurd, the Foreign and Commonwealth Secretary, stressed that Britain's policy on the hostages issue was on "all fours" with that of the US Government.

The Foreign Secretary was not challenged when he contended that the whole House was in agreement that the Government should do everything it could to bring about the release of the hostages short of making concessions or striking bargains with the kidnappers.

He emphasised: "That is because we want a safer world, and not a more dangerous world."

Mr Gerald Kaufman, foreign affairs spokesman of the opposition Labour Party, agreed that there should be no deals which either rewarded hostage-taking, or gave incentives to further hostage-taking.

He said that when the British people saw hostages of other nationalities being released they had every right to expect the release of British hostages as well.

Mr Hurd gave an assurance that constant efforts were being made to secure the release of the hostages.

He recalled that Iran broke off diplomatic relations with the UK over the Salman Rushdie affair, but made it clear that the possibility of direct talks with Iran had not been ruled out.

Mr Hurd reminded the House that Britain broke off diplomatic relations with Syria over the issue of state-supported terrorism - an issue which remained unresolved.

He confirmed that Britain had had indirect contacts with Syria on behalf of the hostages.

Sir David Steel, foreign affairs spokesman for the Liberal Democrats, urged Mr Hurd to consider the reopening of diplomatic links with Libya as well as Syria in view of the recognition other governments have given to their role in securing recent hostage releases.

## Committee suspends Iraqi 'gun' inquiry

By Ralph Atkins

A HOUSE of Commons select committee yesterday suspended its investigation into the Iraqi "gun" affair until legal proceedings have finished.

The Trade and Industry Committee said criminal cases and the legal position of individuals could be adversely affected by a public inquiry.

The committee ruled out a private investigation because there were "serious matters involved which require proper and open parliamentary scrutiny". Its inquiry followed allegations that British companies exported tubes to Iraq in breach of export controls after receiving advice from the Department of Trade and Industry.

A proposal to continue the inquiry by requesting written evidence from the Department of Trade and Industry on procedures for handling export licences was defeated by five votes to four.

Colleagues of a British truck driver held for more than two weeks in a Greek jail over the Iraqi "gun" affair are threatening a two-hour protest blockade of UK roads within the next few days in an attempt to secure his release, writes Jimmy Burns.

Organisers of the threatened action want to put pressure on the UK government to intervene more forcefully in the case of the truck driver, Mr Paul Ashwell. He was arrested transporting steel tubing believed to be intended as parts of a giant gun.

The next few days in an attempt to secure his release, writes Jimmy Burns.

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## International equities recover from 1987 crash

By Deborah Hargreaves

THE market for international equities recovered to \$14.5bn (23.86bn) last year as it shook off the effects of the 1987 stock market crash which depressed volume in 1988, according to a review of the market in the Bank of England's quarterly bulletin.

The value of international equity offerings remained low in 1988 at \$9bn. One of the reasons for a rise in international share placements last year was the increase in privatisation issues. European companies have also taken advantage of rapidly rising equity prices to broaden and strengthen their shareholder base and to seek the best available pricing for their equity.

International equity offerings are increasingly structured with international investors in mind, though they are still undertaken as part of standard domestic issues.

The Bank of England's review points to the different settlement procedures of the leading exchanges as factors which may represent barriers to the expansion of cross-border equity trading.

## B&C lenders face write-downs

By Richard Waters and Terry Dodsworth

BANKS and some of the other lenders to British & Commonwealth, the troubled financial services group, face write-downs totalling £175m if they accept a rescue plan being circulated among the group's main creditors.

Other lenders are also being asked to take big losses on their investments in B&C, although not as large as the 25 per cent write-downs proposed for the banks and some loan stock and bond holders.

The proposals are in a draft reorganisation plan circulated by S G Warburg, the merchant bank appointed by B&C following its £550m provision against losses at its Atlantic Computers subsidiary, which threatens the solvency of the group.

Warburg is understood to have suggested a break-up of the group over the next three years to raise money for creditors who have lent about £1bn.

The largest group of lenders, with £700m outstanding, has been asked to take the 25 per cent write-down. This is likely to lead to a battle between creditors.

The banks seem prepared to write-down their B&C debt, but on condition part of its converted into preference shares.

David Owen writes: Yesterday saw the creation of a shareholder action group, formed after a meeting of 60 of B&C's 26,000 or so ordinary shareholders, at the New Courthouse Rooms, London.



## FT receives awards

The International edition of the Financial Times, printed in West Germany, France and the US, was yesterday named business journal of the year in the Winrock Foundation awards.

The awards were presented at a ceremony at the Mandarin House, London. Mr Alexander Nicoll, the FT's international edition editor, received the award from Mrs Joyce Winrock with the editor of the Financial Times Sir Geoffrey Owen (left) and Mr Mike Morgan, international edition production editor (right).

Mr Martin Wolf, chief leader writer of the Financial Times, and Mr Christopher Hume, economics editor of the Independent on Sunday, shared this year's senior award for excellence in financial writing.

## Oil riggers work to rule

ABOUT 3,000 offshore contract workers are working to rule in the North Sea over a demand for union recognition, with action spreading, union representatives said yesterday.

This was disputed by the UK Offshore Operators Association, which represents all the companies operating fields in the North Sea. It said action was fairly limited. About 30,000 people work offshore of which an estimated 70 per cent are contract workers.

The dispute with the six unions dates back to January with members offshore seeking to gain joint union recognition by all the contracting companies operating in the North Sea and an annual comprehensive review of pay and conditions for all the unions.

### WHERE do you go when the bank says no?

When you're expanding your company you may need to look further than your local bank for finance. But the problem is knowing where to find the right kind of people to help you grow.

At Finance 90 you'll meet venture capitalists, bankers, accountants, lawyers, factoring companies and relocation specialists.

And discover lots of people prepared to say yes. For free entry just bring this advertisement along to the registration desk.

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### INVESTISSEMENTS ATLANTIQUES

Société Anonyme d'Investissement  
Registered Office: Luxembourg, 14, rue Aldringen  
Commercial Registrar: Luxembourg Section B 5.722  
NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS

The Annual General Meeting of Shareholders of INVESTISSEMENTS ATLANTIQUES S.A. will be held at its registered office at Luxembourg, 14 rue Aldringen, on May 18th, 1990 at 14.00 hours, for the purpose of considering and voting upon the following Resolutions:

- To hear and accept:
  - the management report of the directors
  - the report of the auditor.
- To approve the balance sheet and the profit and loss account for the year ended December 31st, 1989.
- Allocation of profit.
- To discharge the directors and the auditor with respect of their performance of duties during the year ended December 31st, 1989.
- To elect the directors to serve until the next annual general meeting of shareholders, and to propose Mr. William FRIED, fonds de pouvoir at the Banque Générale du Luxembourg, as a new director of the board in replacement of Mr. Claude AREND who resigned.
- To elect the auditor to serve until the next annual general meeting of shareholders.
- Any other business.

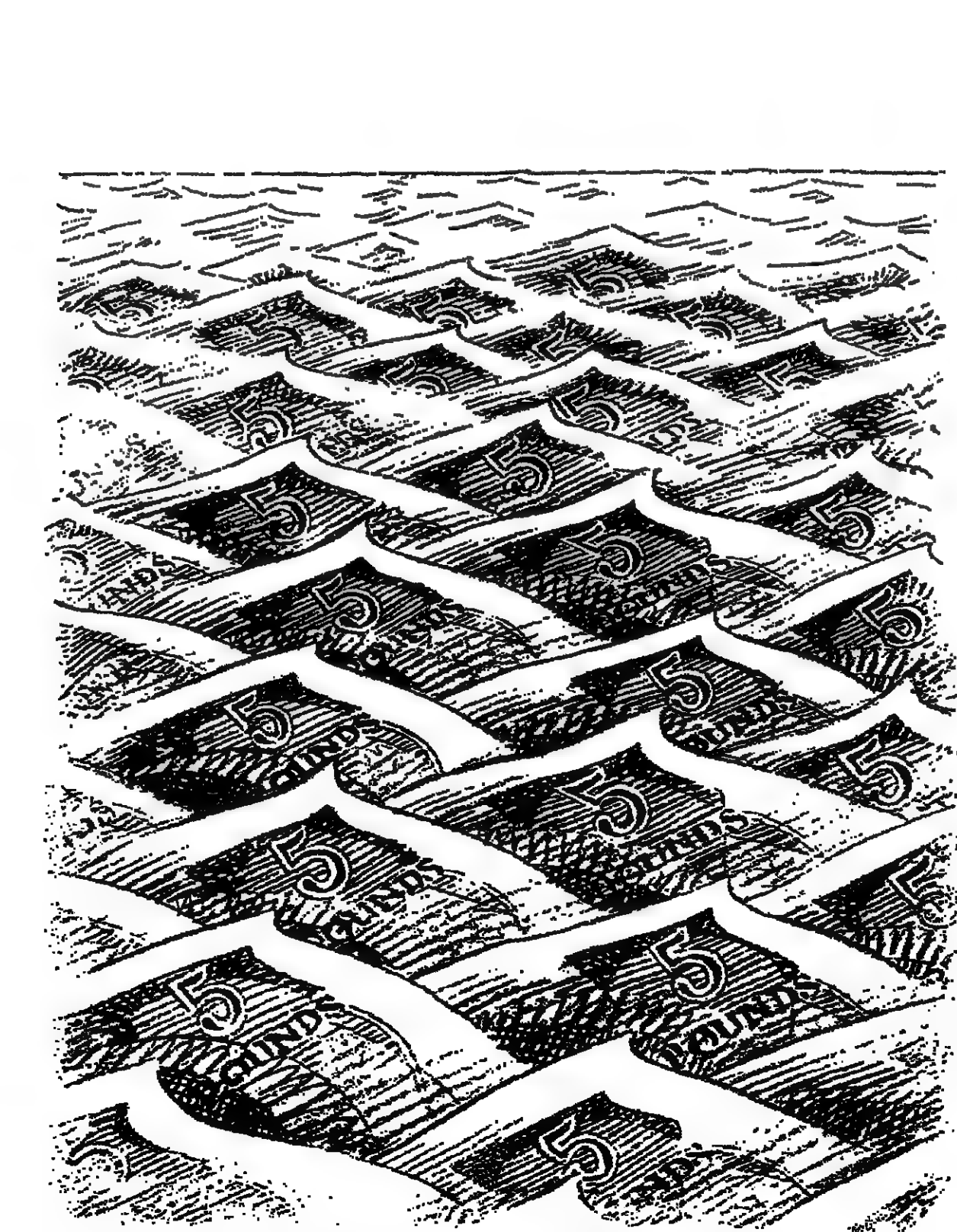
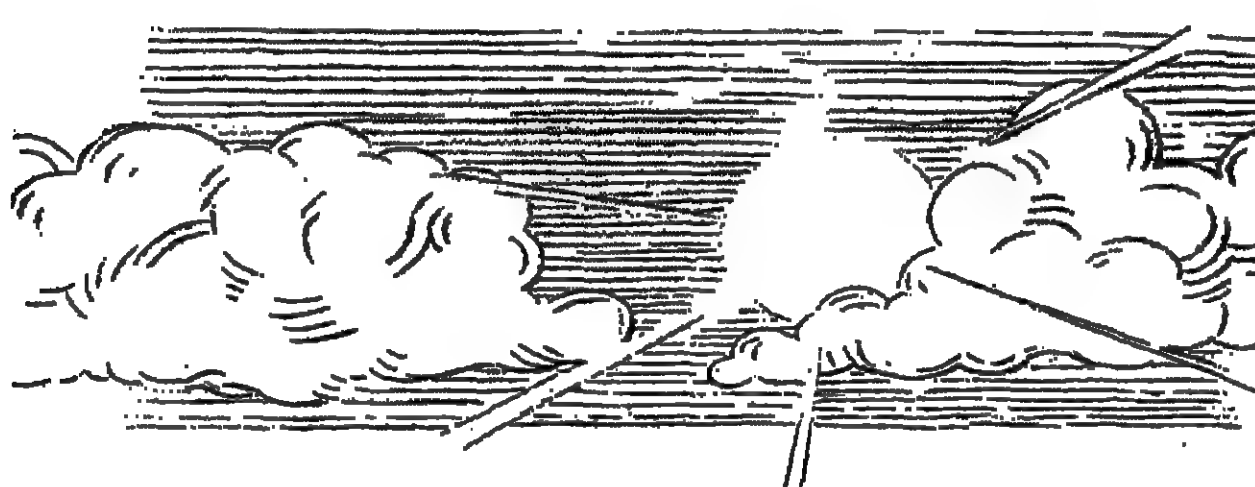
The shareholders are advised that no quorum for the statutory meeting is required and that decisions will be taken by the majority of the shares present or represented at the meeting.

In order to take part at the statutory meeting of May 18th, 1990, the owners of bearer shares will have to deposit their shares five clear days before the meeting at the registered office of the Fund, 14, rue Aldringen, Luxembourg, or with the following bank:

- Banque Générale du Luxembourg S.A., 14, rue Aldringen, Luxembourg.

The Board of Directors

# OPEN A HALIFAX FIXED OR VARIABLE RATE ACCOUNT AND YOU WON'T GET YOUR FEET WET.



Interest on HALIFAX DEPOSIT INTERNATIONAL is paid twice yearly, giving a higher compounded annual rate (C.A.R.\*) if your full interest is left intact for the whole year. Copies of the most recent audited accounts are available on demand. Halifax Building Society's principal office is in Halifax, UK. Rates are correct at time of going to press.

Invest offshore with Halifax Building Society and we'll steer you clear of troubled waters with two complementary, Jersey-based, sterling deposit accounts.

First, HALIFAX DEPOSIT INTERNATIONAL. It's a variable rate, instant access account with no penalties and no minimum time limit. It has a minimum investment level of £1,000 at a substantial rate of 12.50%. The interest rate is automatically adjusted on the whole investment as your balance steps up as follows:-

AMOUNT	£1,000+	£10,000+	£25,000+	£50,000+
INTEREST RATE	12.50%	13.50%	14.25%	14.50%
C.A.R.*	12.88%	13.98%	14.78%	15.05%

You can also set up standing orders, direct debits and have your interest paid directly into your UK or Channel Island bank account.

Then there's our new account, HALIFAX FIXED RATE INTERNATIONAL. The interest rate on your account is fixed on the day that we receive your funds for a period of 12 months and there is a minimum investment level of £10,000.

Being Halifax accounts, you can expect highly competitive interest rates. And being offshore, we can offer you high interest with no UK income tax deducted.

Both accounts are only open to people who are not ordinarily resident in the UK. And both accounts have the added option of monthly interest.

If you would like more details and conditions of issue on either account, or would like to open a HALIFAX DEPOSIT INTERNATIONAL account, then fill in the coupon below.

Alternatively, you can ring our Halifax Jersey Helpline on (0)534-59840.

You can rely on the Halifax to save you from a soaking.

To Halifax Building Society, International Investment Unit, Ingouville House, Ingouville Lane, St Helier, Jersey, Channel Islands.

Please open a HALIFAX DEPOSIT INTERNATIONAL account for me/us.

I/we enclose a cheque/money draft No. \_\_\_\_\_ for \_\_\_\_\_ (min. deposit £1,000).

I/we would like the interest to be: ☐ Added to balance ☐ Paid half-yearly ☐ Paid monthly ☐

I/we are not ordinarily resident in the UK. Please send the declaration form for the payment of gross interest.

I/we accept the terms, conditions and regulations affecting the account for the time being in force.

The sum is being invested in HALIFAX DEPOSIT INTERNATIONAL by me/us as sole/joint beneficial owner(s).

I/we understand that by opening a deposit account, I/we become a depositor with the Society. Depositors are not members of the Society. Only members can attend at meetings of the Society and only certain members can vote on resolutions.

Please send further details of HALIFAX DEPOSIT INTERNATIONAL. ☐ and/or HALIFAX FIXED RATE INTERNATIONAL. ☐

Full Name (Title) \_\_\_\_\_ Tel No. \_\_\_\_\_

Address \_\_\_\_\_

Country \_\_\_\_\_ Date \_\_\_\_\_

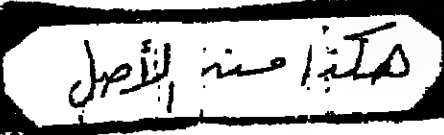
Nationality \_\_\_\_\_

Signature(s) \_\_\_\_\_



THE WORLD'S NO 1

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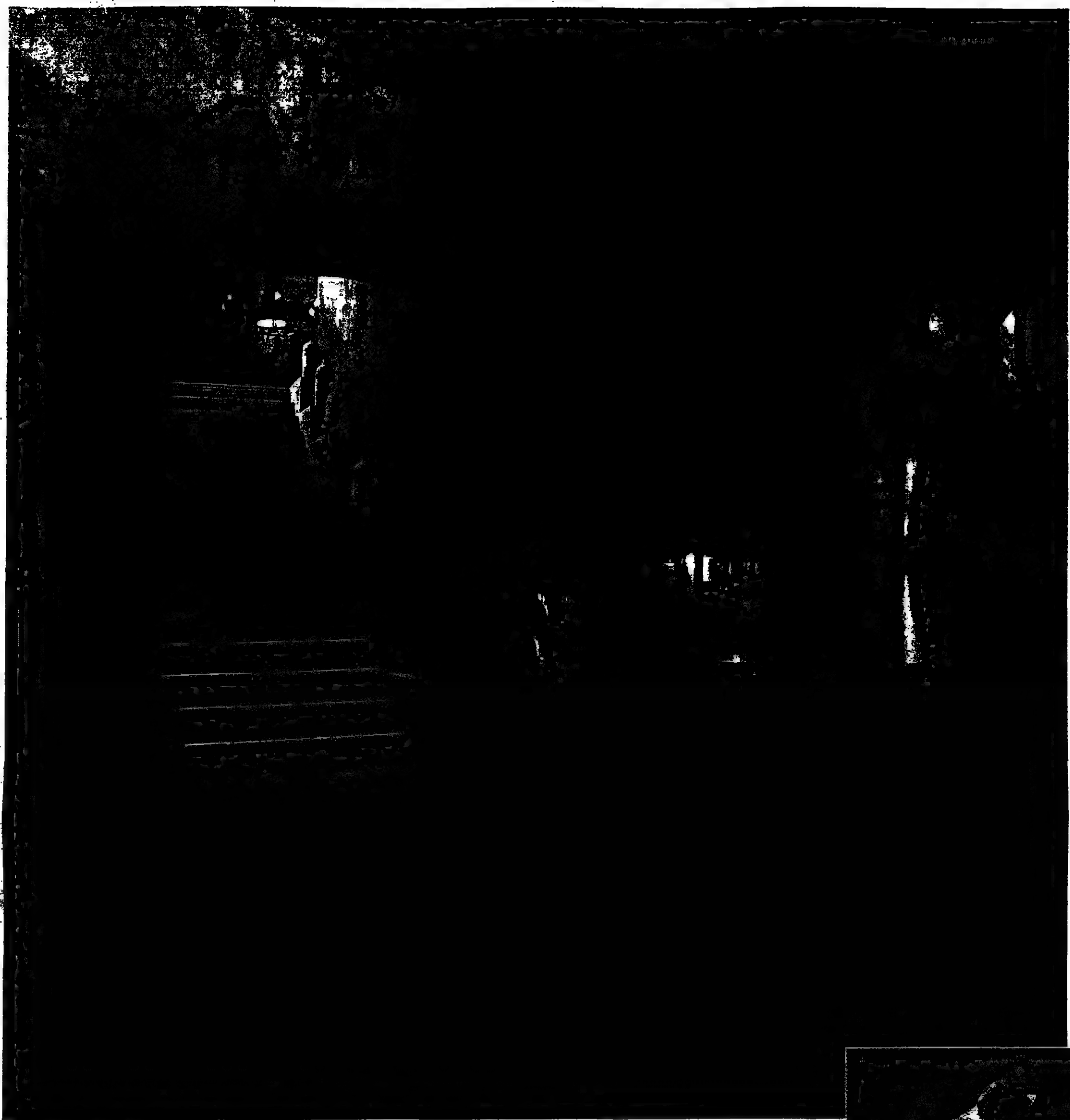
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work to rule

A

MEET



Dr. Vine, seen here accepting vintages of Chateau Duhart-Milon Rothschild for serving in the mid-1980's. He wins the awards, you reap the rewards.

**MEET** DR. RICHARD VINE. IN HIS PURSUIT OF SUPREME VINTAGES FOR OUR *New BUSINESS CLASS*, HE'S AS TENACIOUS AS HIS NAME SUGGESTS. If his name sounds a

little too good to be true, wait till you savour the wines he procures on your behalf. A wine expert of international repute (a Professor of Oenology, no less, and a consultant exclusive to us), he clearly has considerable influence. Besides ourselves, the House of Rothschild permit only one other airline to serve their prestigious vintages. Hence,



Only one criterion applies to our premier wines: Are they worthy of our new cuisine?

we're privileged to offer you their Duhart-Milon '83. The Doctor's ex-

pertise has borne fruit in another respect. Along with our

food, our wines have just won Business Traveller Magazine's 1990 award for being the most outstanding in Business Class (competing, incidentally, with nine other top international carriers). Before you next fly the Atlantic, ring your travel agent or local American Airlines office and we'll be happy to reserve you a table.



Only one criterion applies to our new cuisine: Is it worthy of our premier wines?

American Airlines  Business Class





# NOTICE of Meeting of the Holders of Provisbank A/S ECU 30,000,000 7 1/4% Bonds due 1993

A meeting of Holders of Provisbank A/S ECU 30,000,000 7 1/4% Bonds due 1993 will be held at the offices of Banque Paribas Luxembourg, 10A Boulevard Royal, Luxembourg, on May 28, 1990 at 10.00 a.m. to deliberate on the following agenda in order to confirm to item 10V of the terms and conditions of the Bonds.

## AGENDA

Approval by the Extraordinary Meeting of the Bondholders to the merger of Provisbank A/S with Den Danske Bank of 1871 Aktieselskab and Copenhagen Handelsbank A/S under the name of Den Danske Bank Aktieselskab, assuming all the rights and obligations of Provisbank A/S.

Resolutions on the agenda of the Meeting will require that at any such meeting two or more persons present in person holding Bonds or voting certificates or being proxies and holding or representing in the aggregate a clear majority in principal amount of the Bonds for the time being outstanding shall form a quorum for the transaction of business and no business (other than the choosing of the chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of business.

Should such quorum not be reached, a second meeting would then be convened. At such adjourned Meeting two or more persons present in person holding Bonds or voting certificates or being proxies (whatever the principal amount of the Bonds so held or represented) shall form a quorum and shall have the power to pass any resolution and to decide upon all matters which could properly have been dealt with at the meeting from which the adjournment took place had a quorum been present at such meeting.

For the purpose of obtaining voting certificates or appointing proxies, the holders are required to deposit their Bonds at the latest three business days prior to the meeting at the offices of Den Danske Bank Aktieselskab, or at the above mentioned office of Banque Paribas Luxembourg.

Proxies should be lodged with Den Danske Bank Aktieselskab, or Banque Paribas Luxembourg three business days before the Meeting.

The Board of Management



## Manchester Business School

### PROSPECTS FOR THE BRITISH ECONOMY

Thursday, July 5 1990

This important one-day conference in association with Cambridge Econometrics will analyse the outlook for the British economy in detail over the next two years and in more general terms until the end of the century. It will be of interest to marketers, business planners, financial analysts and policymakers in both local and central government.

- Topics
- Economic outlook 1990 - 2000
  - Corporate sector trends and outlook
  - Consumer confidence
  - Monetary and fiscal policy
  - Competition policy

Speakers: Prof. Tony Cockerill, Prof. John Pickering, Richard Lowrey, Richard Brown.

Further details and registration forms: The Administrative Offices, Management Centre, Manchester Business School, Booth Street West, Manchester M15 6PB.

Telephone: 061-275 6333, Fax: 061-273 7732.

UNIVERSITY OF MANCHESTER

## UK NEWS

# Former Moscow envoy attacks Government



Sir Bryan Cartledge: "Russian studies inadequate"

A FORMER British Ambassador to the Soviet Union yesterday attacked the Government for failing to provide adequate resources for promoting exports and business contacts with the Soviet Union and Eastern Europe and for studies of these countries and their languages.

Sir Bryan Cartledge, Principal of Lincoln College, Oxford, said in a lecture delivered at the Royal Institute of International Affairs in London, that exporting to the Soviet Union and Eastern Europe would become more difficult during a transitional period in which the old structures were dismantled, but had not been

replaced by new methods and institutions. He said it was disappointing that Eastern Europe, including the Soviet Union, ranked only 7th in the British Overseas Trade Board's list of priorities in its latest forward plan.

"It is precisely in conditions of change and confusion such as currently obtain in the Soviet Union that exporters most need official advice and governmental assistance," Sir Bryan said. "If this is not increased to keep pace with the growth of opportunities, British companies will be disadvantaged."

Sir Bryan also underlined the findings of the Woolfson Commission, of which he was a

member, that the provision for Russian and East European studies in the UK was "seriously inadequate" to meet greatly increased student demand or the national need.

A number of detailed recommendations by the Commission on ways in which research and lectureships for the revival of Russian teaching could be funded, were still waiting to be implemented. They would cost \$2m, but spread over 14 years they would never exceed £1m in any one year.

There was no way in which the establishment of a secure foundation for Russian and East European studies could be met from existing funding.

# Committee calls for increases in education spending

By Norma Cohen

A HOUSE of Commons committee led by the ruling Conservative Party yesterday called for a substantial increase in education spending to combat teacher shortages, with teachers in specific subjects to be paid according to a higher scale.

The controversial report had been delayed for months by political manoeuvring and is likely to embarrass the Government which has sought to minimise teacher shortages and to cap spending. Yesterday, the four opposition Labour party members said they had voted against the report, in part as a protest against constant unacceptable pressure applied by government officials. They also said they were sceptical about whether the Government is willing to allocate funds needed to implement the report's recommendations.

Committee Chairman Mr John Thornton MP said yesterday that it would be impossible to carry out the government's education reforms without higher spending. "If the Government wants to carry out its reforms, and clearly it does, then the resources will have to be found," he said.

The report did not attempt to estimate the extent of teacher shortages, but noted that the Government's own figures estimate that an additional 29,500 teachers will be needed by 1995 to implement the national curriculum and to meet an expanding school-age population. This would cost about £400m per year, assuming no increase in salaries.

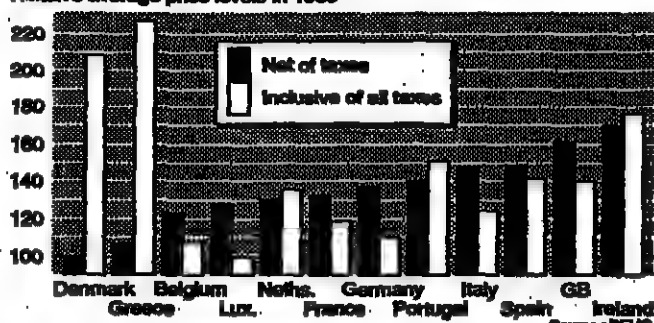
Among the report's main recommendations is that teachers in shortage subjects - defined as maths, science and computing - be paid on a higher pay scale. The recommendation was criticised by the two largest teaching unions, the National Union of Teachers and the National Association of Schoolmasters/Union of Women Teachers. The report acknowledged the case for a general rise in teacher pay.

# European car policy comes under scrutiny

The inquiry on vehicle pricing may find EC rules ineffective, writes John Griffiths

## New car prices in the EC

Relative average price levels in 1989



warranted by manufacturers taking advantage of outdated customs, practices and perceptions of "what the market will bear".

They were being helped in keeping prices high, argued the consumer groups, by such factors as restrictions on Japanese car imports in some markets (to a ceiling of 11 per cent of total new car sales in the UK) and the refusal of dealers - under pressure from their vehicle suppliers - in countries where cars were cheap to supply them to motorists wanting to import them into high-priced markets.

The manufacturers fought, over several years, a fierce rearguard action in which they claimed that cross-border price differentials were much less than the consumer groups claimed.

Differential taxation regimes, exchange rate variations, and even the existence of different specifications in individual markets for vehicles with the same names, were all arguments brought into play by the manufacturers in an effort to convince buyers that no "rip-offs" were at work.

The manufacturers were particularly concerned because they wanted to stem the tide of "grey" imports to the UK which they saw as undermining their profitability.

Between 1980 and 1985 about 200,000 cars were estimated to have been brought into the UK by buyers taking advantage of cheaper Continental prices.

Neither side was wholly successful in its arguments, the eventual outcome being the regulatory framework for car distribution now in existence

throughout the Community today - and which is now likely to be called sharply into question.

The compromise reached at the time by the EC's Competition Department took the form of the Block Exemption Regulation, which became effective in November 1984.

Under it, the motor trade and industry was exempted from Treaty of Rome rules requiring that individuals should be allowed to buy goods freely from whoever and wherever they wanted.

They were allowed to retain the system of exclusive franchises between manufacturers and dealers - known as selective distribution - on the basis that motor vehicles are complex products, requiring sophisticated after-sales care, and that it was actually beneficial to consumers for the system to stay in place.

However, the regulations also insisted that manufacturers make available to dealers vehicles similar to those the dealer normally sold, but with the specification of another Community country.

In UK terms, this has meant the provision of right hand drive cars to any British driver who wants one to buy one in, say, Belgium or Luxembourg.

But it is the apparent inadequacy of one of the key ingredients in the compromise, that EC new car prices should move only within a predetermined band much like the currency

"snake", that has primarily triggered this latest controversy.

The rules which still stand provide for an inquiry to be triggered automatically if prices vary by more than 18 per cent for a short period, or by more than 12 per cent over a period of a year or more.

Of some help to the manufacturers is another provision that excludes from the snake those markets where government taxation levels are typically high.

Notably, this includes Denmark - where taxes increase base vehicle prices by 100 per cent - and Greece.

The arguments being voiced by consumers groups, and the BEUC in particular, is that prices have demonstrably not remained within the guidelines (see chart), and that there seems to have been little or no action by Brussels to seek compliance. A study undertaken by the BEUC for the Directorate-General for consumer protection in Brussels last year concludes that average differences in pre-tax price levels for new cars in the EC "are back up, after a long period where they narrowed".

The average difference between Belgium and the UK of 32 per cent in 1981, had narrowed to 19 per cent in 1987. In 1989 it has widened to 31 per cent.

"More than ever there is room for a permanent market in parallel imports",



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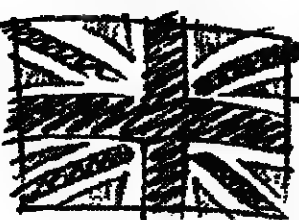
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## UK NEWS

## BRITAIN IN BRIEF



## S Koreans invest in audio plant

Inkel, the South Korean manufacturer of audio equipment, is to set up a factory in the North East of England to provide a base from which to export automobile stereo systems to continental Europe.

The new plant, which involves a total investment of about £2m, is the third Korean operation in the region and the fifth Korean greenfield investment in the UK.

The announcement coincided with a visit to Seoul by Mr Nicholas Ridley, the secretary of state for trade and industry. In addition to promoting Korean direct investment in the UK, he is discussing a series of trade issues including the protection of intellectual property rights, the reduction of taxes and barriers to imports of Scotch whisky and the liberalisation of Korea's capital markets.

Inkel's announcement also coincides with a decision by the European Commission to investigate alleged dumping of car radios in the European Market by Korean companies. European markets account for nearly a third of Inkel's output.

## Borrowing rises fourfold

Personal borrowing in the UK, excluding mortgages and fuel bills, has risen nearly fourfold in the last 10 years, the National Consumer Council says in a report on credit and debt published today.

The report says personal borrowing was £11bn in 1980 and is now well over £45bn. It says people are relying on future income to pay for what they want now.

The NCC says: "The more people earn, the more likely they are to use credit - but it is the poorest who are more likely to have insurmountable problems paying what they owe."

## New phase for Democrats

Last week's local election results, where the Liberal Democrats gained around 18% of the vote, marked the start of a new phase for the party, Mr Paddy Ashdown, the Democrats' leader, said yesterday.

"We must be much more positive and aggressive in selling our message to the public and playing through our policies more strongly," he said.



Ashdown: new message

Now that the phase of repairing "terrible damage we did to the party and its image" was over, the party's good performances in the London boroughs of Richmond, Sutton and Tower Hamlets would be used as a "role model" for elsewhere.

He said that the party would build on those successes which were based on providing quality services and devolving power. The approach would concentrate on the voter as consumer and as citizen.

## Toxic waste build up

A survey for the Department of the Environment has disclosed widespread problems of toxic waste leaks and the build up of explosive methane gas at waste sites in England and Wales.

It also shows that little is being done to monitor the sites to find out which of them are in a dangerous condition.

Yesterday Friends of the Earth, the environmental organisation which obtained a copy of the report, called for a national monitoring system of landfill sites to be set up by the Government.

The study, conducted by consultants Mr Barry Croft and Mr David Campbell, covered 100 landfill sites dealing with 13m tons of rubbish a year.

## First shots in by-election

The opposition Labour Party and the Conservatives fired the opening shots in a by-election in Bingley, north-west England, yesterday with Mr Roy Hattersley, deputy opposition leader, saying the seat would be fought as if it were a marginal.

Speaking in the Merseyside constituency, Mr Hattersley predicted Labour would win with a "very substantial majority". The challenge was for Mr Mike Carr, Labour's candidate, to produce a result which would prove the party was "surging ahead all over the country".

The contest was caused by the death of Mr Allan Roberts, the Labour MP who in the 1987 election had a majority of 24,477.

## New business computer

Research Machines of Oxford, which claims to be the UK's largest independent personal computer manufacturer, yesterday announced a new microcomputer designed to provide computing power for a network of personal computers for small and medium sized businesses.

It is based on the fastest available conventional microprocessor, the Intel 80486, and uses the Unix operating system, which is becoming the industry standard.

## Survey on Leukaemia

A national survey suggests that leukaemia is more common in Britain than was previously supposed from official medical statistics, although it remains a very rare disease.

The Leukaemia Research Fund, a London-based cancer

charity, believes there may be as many as 3,600 new cases of the disease each year in England and Wales, some 60 per cent more than government figures suggest.

The geographical distribution of the disease also varies widely, with a strikingly high rate for Somerset.

The small Somerset town of Yeovil has the highest incidence of chronic lymphoid leukaemia and acute myeloid leukaemia of any community in England or Wales.

## Kinnoch praises press

Mr Neil Kinnoch, the Labour Party leader, yesterday praised local and regional newspapers for their diversity, dependability and their lack of pomposity.

Local newspapers upheld C.P. Scott's maxim that "comment is free but facts are sacred" to a greater extent than many national newspapers.



Kinnoch: "Facts are sacred"

The Labour leader was speaking at the British Regional Press Awards organised by UK Press Gazette and sponsored by the Post Office where the Sheffield Star won the top award for its coverage of the Hillsborough football disaster and also won the production award.

## Sea rescue

Three badly-burned seamen were rescued after an explosion on a bulk ore carrier 60 miles south west of Land's End yesterday, according to coastguard reports.

The injured crewmen from the Taiwanese-owned Trave Ore were flown to hospital in Plymouth, Devon.

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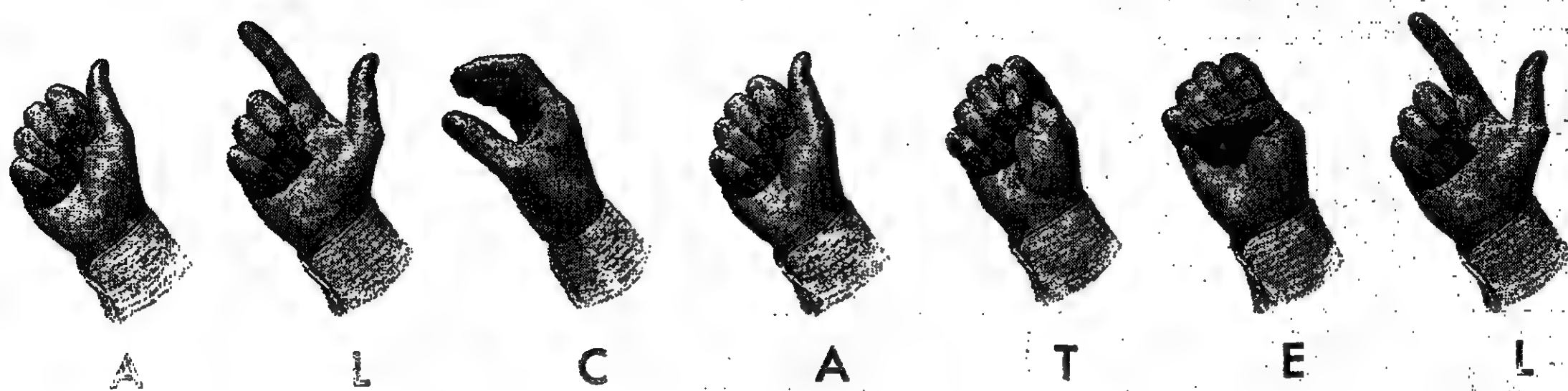
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## BUSINESS LAW

## Straitjacket for the water industry?

By John Cook

EARLY in January last year, Mr. Nicholas Ridley, then Secretary of State for the Environment, gave notice that he would be introducing special merger controls into the Water Bill which had by then already begun its passage through Parliament.

The controls would apply to mergers initiated after his announcement, but their precise nature became apparent only when appropriate clauses were introduced into the Water Bill in late February last year.

They reflect the fact that the supply of water is a natural monopoly and that the proxy for true competition — "yardstick" competition — created by the regulatory regime is dependent upon the Director General for Water Services (DGWS) continuing to have data available from as many water undertakings under independent control as possible. ("The independent control principle").

At the end of last month the first report of the Monopolies and Mergers Commission (MMC) under the new controls was published. It dealt with the proposed merger between Lee Valley, a subsidiary of Compagnie Générale des Eaux, Colne Valley and Rickmansworth water companies.

The Three Valleys proposals, as they came to be known, were first announced in July last year and were referred to the MMC by Mr. Ridley, by then Trade and Industry Secretary, in September.

The report gives little comfort for those contemplating mergers within the water industry, and highlights the complexity and uncertainty at this stage surrounding a number of important aspects of the regulatory regime introduced in the Water Act.

The MMC concluded that the Three Valleys proposals might be expected to operate against the public interest but only because, in the MMC's view, they failed to guarantee that all savings realised through the merger would be passed on to consumers in lower charges.

The MMC went on to recommend that the merger could proceed, provided that the parties were able to give satisfactory assurances that their consumers would benefit fully and quickly from the merger.

However, even this conditional clearance was called into

question by the DTI press release which accompanied publication of the report.

Mr. Ridley took the unusual step of publicly questioning the MMC's conclusion that the cost savings identified were sufficiently substantial to outweigh the loss of comparative information available to the DGWS.

He has asked the DGWS to have further discussions with the companies and to report to him within three months. The saga continues.

The merger controls in the Water Act are unique, even among recent privatisations, and in marked contrast to the general merger controls in the Fair Trading Act 1973.

The Water Act allows the Secretary of State no discretion as to whether to refer a qualifying merger to the MMC for investigation. Reference is mandatory.

More importantly, the public interest test which the MMC is required to apply, in practice, creates a strong presumption against any merger between water enterprises compared with the neutrality of the Fair Trading Act.

Several pages of the MMC's report are taken up with analysis of exactly what kind of public interest test the Water Act has established. One thing is clear: it is very different from that with which the MMC is familiar.

Under the Fair Trading Act the public interest is at large, but factors such as competition, consumer choice and efficiency are highlighted, and, in practice, the MMC focuses on the effects of a merger on competition in the UK.

By contrast, if a water merger under review prejudices the ability of the DGWS to make comparisons between different water enterprises, the Water Act prevents the MMC from taking into account "any other purpose" in judging the public interest.

It may only take account of specific purposes if it is satisfied either that the other purpose can be achieved without detriment to the "independent control principle", or that it is "of substantially greater significance in relation to the public interest" than preservation of the principle.

This test places a very considerable burden on those seeking to justify a water merger,

and the first report of the MMC demonstrates just how difficult that burden is to discharge.

However, the public interest test in the Water Act, though lamentably unclear, is not as odd as it might seem at first blush. "Yardstick" competition, established through the K formula for setting water charges, is designed to mimic the operation of the competitive market absent among the natural monopolies of water supply.

The controls over water mergers seek to protect "yardstick" competition just as general merger control seeks to protect the structure of truly competitive markets.

The companies involved in the Three Valleys proposals identified, with some precision, some £50m-£60m of cost savings achievable through the merger. As a result water charges were expected to be at least six per cent lower than they otherwise would have been at the end of a 10-year period following the merger.

Interestingly, the MMC regarded this level of saving as sufficiently substantial to outweigh the loss of comparative data suffered by the DGWS as a result of the merger and to tip the balance weighted against mergers between water companies in favour of the Three Valleys proposals.

This assessment is of limited value as a precedent, however, since the MMC was unable to quantify the detriment suffered by the DGWS.

Not surprisingly, the MMC was unwilling to sacrifice quantifiable benefits for consumers of the three companies in favour of "future theoretical benefit" for consumers generally, which the DGWS argued would result from maintaining the three companies as separate sources of data.

A bird in the hand is worth two which have yet to emerge from the tangled undergrowth of the regulatory processes in the Water Act.

However, the MMC refused to clear the merger outright on the ground that the proposals failed to guarantee consumers all the benefits of the cost savings within the near future.

The regulatory framework, acting as a surrogate for a competitive market place, has been designed to ensure that consumers obtain good-quality water at reasonable prices

while not deterring investors. This, in turn, is the key to the political success of water privatisation.

The MMC's task under the Water Act is to act as the guardian of "yardstick" competition and, as such, it occupies a more apparently political role than usual, as demonstrated in its decision that consumers in the Three Valleys area should not forego lower water charges in favour of consumers throughout England and Wales. It is therefore doubly unfortunate that the MMC should find itself applying merger controls which are so opaque.

As regards such a key element as the test for determining what constitutes a loss of independent control, the MMC, even after a special legal hearing and leading counsel's advice, was left with conflicting interpretations both of which it regarded as "tenable and capable of being argued effectively". Not surprisingly it opted for the one which gave the controls a wider ambit.

The MMC report into the Three Valleys proposals demonstrates that the merger controls in the Water Act may constitute a more effective deterrent to takeover activity than the golden shares held by the Government, particularly after its decision in the case of Jaguar.

The publication of the report has already had an effect on share prices. The controls, aimed at preventing concentration, distort the market for control of water companies by favouring bids from companies without interests in the water industry.

Such bids fail to be investigated, if at all, under the more benign Fair Trading Act regime. On the other hand, mergers between the larger water enterprises are subject to mandatory reference under the Water Act, with its much stricter test for clearance.

Successful and efficient water companies may be deterred from seeking to acquire their less successful counterparts, and applying their greater expertise.

The concept of "inset appointments" is unlikely to introduce effective competition into the industry, as the report recognises. The author is a partner of City solicitors Norton Rose.

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## MANAGEMENT: Marketing and Advertising

## UK electric cookers

## Helping the Baby grow up

Clay Harris explains the rationale behind Belling's imminent campaign

Belling & Company has been making electric cookers on the same site in Enfield, north London, for more than 60 years. Its best-known product, the counter-top Baby Belling with two rings and a grill, is a standard fixture of bed-sitting rooms.

Despite this humble heritage, Belling is one of three companies which dominate the UK electric cooker market, together accounting for 85 per cent of sales of stand-alone appliances.

The others, Tricity and Creda, are owned by multinational giants, Electrolux and General Electric Company respectively, each with annual sales approaching \$2bn.

Belling, at present narrowly the market leader, is in a different league. It is a one-sector specialist with sales last year of only \$60m. It has not spent a pound on advertising since the early 1980s.

That is about to change. Belling has appointed J Walter Thompson to ascertain the most effective way to advertise. The company has also focused on design as the best way to differentiate its products, says marketing manager Andrew Smith, "not only from everything else in the marketplace, but also from what has

gone before." Change was forced on Belling because its main competitors were bought by huge companies with global horizons and few of the financial constraints which fettered a small privately owned company. Moreover, one of Belling's main markets, the electricity board showrooms which account for 60 per cent of its sales, were being shaken up before privatisation.

Richard Belling, nephew of the company's founder, began three years ago to bring in a new generation of executive directors with broad outside experience. He stepped down as chief executive, but remained as chairman.

Then the company launched a strategic review of its raison d'être. Belling's strength, it concluded, was that it was focused on a single business - cooking - and did everything - administration, research, manufacture - on one site. It then looked long and hard at its main market - free-standing and slot-in electric cookers. Belling decided it could not afford to forgo any sale just because it lacked a model at a certain price or with certain features. Spotting two such gaps in its product range, it filled them.

More important, it needed to

convince customers to buy cookers more often. "The replacement cycle is 15 years," says Simon Turner, commercial director. "Strategically, we need to drive that down."

A complete rethink of the company's design image was the answer. For the first time in a decade, Belling looked outside for advice. Its telling choice was Paul Priestman, one of the brightest lights in UK industrial design.

"We wanted to know what were the real design trends long term - outside the UK and outside the cooker industry," says Turner. Smith notes: "If we took up for a new range of cookers, that line has to last for six years minimum."

Since Priestman, who is still in his 20s, helped to establish his credentials by manufacturing convector heaters of his own design, Belling came to the right place. "We design in a way that can be manufactured," Priestman says.

One Priestman-designed cooker requires only 180 components against 320 in the model it replaces. Moreover, pressed steel side panels are both more rigid and more attractive on the showroom floor (they are hidden when slotted into a kitchen).

Most of the Priestman lines for Belling have a 1950s feel,

white and with curved lines, although this retro look is intended to be timeless. Knobs are pointed at one end, and perceptibly click from one setting to another.

Although it has budget ranges, Belling is aiming especially to increase sales to prosperous prime-of-life consumers, old enough to remember the 1950s - just Belling's average price for cookers of £480 is already well above the overall UK figure of £349.

The Priestman cookers are now on display in the Design Museum's review gallery. By the middle of 1991, Belling intends to have replaced 70 to 80 per cent of its cooker range with models designed by Priestman Associates. By then, its advertising campaign should be in full swing.

JWT was appointed in January. Its initial task is to study the buying process and how advertising works in the appliance market. Unlike rivals with deep pockets and a broad range of appliances to benefit from the "halo effect" of brand advertising, Belling will have to target its message carefully and effectively.

The company is already a household name. Andrew Robertson, group director at JWT, says: "Belling is acknowledged to be a British company which



Andrew Smith (left) and Paul Priestman at the Boilerhouse gallery: cookers are designed to be timeless

produces robust, high quality cookers." But balancing the positive images are negative connotations: old-fashioned and dull, too identified with the Baby Belling. "What we've got to do is exploit some and change the others."

Belling is now committed to advertising. "We recognise the value of the brand but also the need to re-invest in it," says Turner. Robertson believes that Belling did not suffer much from its seven years without advertising because its rivals were not advertising

effectively either. Both men are keen not to prejudice JWT's research, but their instinctive view is that Belling must be established in the consumer's mind long before a purchase is planned.

"Belling's reputation has to become very familiar even to people who are not going to buy a cooker for seven years," says Robertson. As a result, the eventual campaign will be "intrusive and focused" and "highly visible." No longer a baby, Belling will soon be both seen and heard.

## A serious giggle for the goggle-eyed

Philip Rawstone on marketing opportunities afforded by ITV's Telethon

Many British public companies, from financial services to consumer goods, now regard support for community and charitable projects as an essential part of their business.

NatWest bank, for instance, will be giving £14m to a variety of causes this year in recognition of its "responsibilities for the well-being and stability of the community."

But one day in the year is becoming a kind of national festival of corporate and community fund-raising. This is the 24-hour ITV Telethon, to be held this year on May 27-28.

The show, broadcast in all 15 ITV regions, aims to make fund-raising fun. It features sponsored events from swimming marathons to supermarket trolley races. People wearing blue ears will perform all kinds of daft stunts.

Last year, 35m viewers tuned in. In the last hour of the show, 5m of them rushed to telephone their pledges of contributions to a total of £23m. The money was all channelled back into projects in the regions in which it was raised.

"It is an opportunity for companies not only to do good, but to be seen doing good," says Diane Potter, executive producer. The programme is, therefore, becoming an attractive marketing medium - a means of improving corporate image and brand promotion.

Shelia Underwood, community affairs manager for Safeway, the supermarket chain, for instance, aims to double last year's £150,000 contribution by involving staff and customers in a series of events in different areas. "The television coverage raises awareness of the company and generates a positive response," she says.

"It is very easy for supermarkets to be seen as just taking money at the checkout. This shows that we want to be part of the local community, that we care about it, and that we want to help it in as many ways as we can."

The opportunity is also being used to promote Safeway's own-label soft grain bread. The store is guaranteeing a 25,000 contribution from donations linked to sales.

Bill Brodie, managing director of Premier Brands' beverage products, is devoting 10 per cent of his marketing budget this year to Telethon.

The company has organised a sponsored swimming marathon, which began in March and involves some 11,000 swimmers at 120 pools across the country. The first 2,000 swimmers have already raised £250,000. "Our people enjoy getting involved, and it fosters a good community spirit within the company," says Brodie.

But for Premier, Telethon is more important as a means of promoting its chocolate drink brand, Cadbury's Chocolate Break. "The event links us to leisure centres, an important market for our products," he says. "It involves us with people of all ages, taking part in a popular activity throughout the country. It is an effective way of reaching those people and there are a lot of them - who do not watch television advertising."

Burger King, the fast food chain, will be selling Telethon's blue ears - an idea adapted from Comic Relief's red nose - in its 100 UK restaurants.

"We are doing it because it's a bit of fun," says marketing director, David Richards. But it is serious, too, because Burger King's blue ears - an idea adapted from Comic Relief's red nose - in its 100 UK restaurants.

"We are doing it because it's a bit of fun," says marketing director, David Richards. But it is serious, too, because Burger King's blue ears - an idea adapted from Comic Relief's red nose - in its 100 UK restaurants.

The combination of altruism and advertisement, corporate image and corporate responsibility, is proving a potent attraction to many others.

The London stock exchange is giving 1p for every 50 shares and every 1,000 gifts traded on the day; Abbey National, Our Price, and W H Smith are planning collections; and British Telecom is offering the 3,500 telephone lines for accepting pledges from the programme's viewers.

In an exercise that will cost an estimated £500,000, NatWest, one of the first of Telethon's supporters, is raising 41 pence with 5,000 volunteers from its staff to handle contributions. "Our staff enjoy being involved with an event which generates such obvious benefits for national and local charities," says Tom Frost, NatWest chief executive.

Back in the 1950s popular perceptions of the advertising industry were dominated by Vance Packard's book, *The Hidden Persuaders*, and its image of advertising agencies as Machiavellian manipulators pumping out propaganda to impressionable consumers.

Commercial television was then in its infancy in Britain. Families gathered around their TV sets to gaze goggle-eyed at sizzling celebrities plugging the virtues of various products in the commercial breaks.

Those days are over. The average consumer has become blasé; he or she now watches almost 30 hours of television and sees up to 200 commercials every week. The TV set - and the commercial - are part and parcel of everyday life.

Leo Burnett, the London ad agency, set out to discover how this exposure to commercials has affected attitudes to advertising. It commissioned a study from The Research Business to analyse how well consumers understand the aims and techniques of

## A British perception of commercials

advertising. The study required 50 British families to fill in a diary for three weeks last autumn in which they jotted down their opinions of any commercials which - for good or bad reasons - had made an impression on them. The Research Business also organised an identical study of 30 people professionally involved with marketing.

One of the most notable conclusions is how difficult it is for commercials to attract people's attention. Typically the participants considered just eight commercials to be worthy of note. Yet, on average, they are likely to have seen anything between 180 and 200 every week in the period.

The women tended to comment on more ads than the men. The professional marketing people were less perceptive than the 50 families. They commented on an average of just

three commercials, possibly because they had less time for viewing. The most popular ads tended to be humorous take-offs of television programmes. These included Leeds Building Society commercials featuring George Cole - the actor who played Arthur Daley in *Minder* - and a Carling Black Label lager ad which sent up the *Treasure Hunt* television series.

Subtle, or sophisticated, commercials were also popular. The participants responded favourably to campaigns - like the "Sun" advertising for Perrier mineral water and the "soap opera" ads for Oxo stock cubes - which they considered to be unusual or challenging. The least popular were hard-sell campaigns and pompous ads that patronised the consumer.

The consumers were also asked to analyse the objectives of the commercials. Most could not only identify exactly what the advertising agencies were setting out to say, but also how they were trying to say it.

Leo Burnett, like most other large agencies, conducts on-going research into consumers' response to its advertising. Alan Setford, the agency's planning director, says that although this research had shown that consumers were much more sophisticated in their understanding of the advertising process, he had been surprised by the "real depth of knowledge" and "sensitivity" displayed.

The participants were able to identify a campaign's strategy. They could also work out whether it was emphasising the functional aspects of a product or the difference between one product and its competitors.

They used the same sort of language as marketing professionals in their analysis, showing how advertising

jargon has slipped into the vernacular. Their comments were peppered with words like "promote", "demonstrate" and "image". They talked in terms of "awareness of a new brand" and "a build-up of nostalgia commercials".

Similarly the consumers were very perceptive about the technical aspects of advertising. They were critical of cheap sets and poor acting. They complimented ads with lavish production budgets for using "a variety of camera angles" and being "well edited".

Setford believes that the study proves that consumers have reached a new level of understanding about advertising. This, he says, intensifies the pressure for commercials to be challenging, intriguing and surprising to the viewer, but also relevant and above all credible.

Inquiries to Leo Burnett, 48 St Martin's Lane, London WC2N 4BJ, (071) 586-5424.

Alice Rawsthorn

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FINANCIAL TIMES  
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## ARTS

## CINEMA

## Turtle mania is hard to match

NEW AMERICAN FILMS

PRETTY WOMAN  
Garry MarshallJOHNNY HANDSOME  
Walter HillLEVIATHAN  
George Cosmatos

Spring, when Hollywood recuperates from the Oscars and the land burgeons with low-budget oddities and sleepers, is a fine time to cross the Atlantic and see the new films. Having just done so, I must report a remarkable fact. The place has gone limey-mad. Britain has a finger in almost every movie pie on offer, and in the case of at least one pie it has withdrawn a very lucrative finger indeed.

We speak of *Tenacious Ninja Turtles*. Directed by Britain's Steve Barron, this is the most unstoppable box-office performer since *Batman*. Shattering records, Barron's creature fantasy with kung fu trimmings cost \$10m to make and has already taken \$100m in a mere month of business. (*Batman's* \$250m seems well in sight.) Already popular in comic-strip and TV cartoon form, the "heroes in a half shell" now extract tidal waves of laughter and delight from audiences of (more or less) all ages. The film is totally dotty. You must swallow comic *grasso* with the premise that four mutant turtles affected by radiation grow up to become semi-human Ninja warriors. They lurk in the New York sewers; they are brought up by a wise old rat; and they are involved in a long-running feud with a gang of Oriental thugs. They also eat pizzas, dance to rock music and speak as if reared on *Bill and Ted's Excellent Adventure*. ("Excellent!", "Righteous!", "Awesome!")

It is a disservice to a film so unapologetically and so unhesitant in its implausibility. At the same time, you cannot but wonder at the mental age of modern America, when a movie which re-defines the concept of *brilliantly idiotic* can generate such a box office. Last year at Cannes the film was screened in the market and no one took a blind bit of notice. The more fools we, A

modest sum placed on this horse at an early stage would have us all living now in luxurious retirement. What else are the British contributing to American cinema? Well, we have Michael Caine as an unaccountably Bernadine-accented businessman living and wife-murdering in New England. (Film, *A Shock To The System*.) We have Jenny Seagrove starring as an English nanny in *The Guardian*, a spy supernatural screamer from director William Friedkin of *The Exorcist*. And our very own writer-director Harry Hook, who made the justly praised *The Kitchen Toto*, has now re-made *Lord Of The Flies* for Columbia Pictures with an all-American cast.

Well, sort of all-American. Britain's Bob Peck turns up as a rescuing marine in the last reel, sporting combat camouflage and a frightful US accent. Truth to tell, the Americanisation of *Golding's* novel does not work well in the book and in Peter Brook's earlier film, there was a pointed irony in the spectacle of milk-fed scions of the English private school system turning into painted savages. Since there seems nothing remotely milk-fed about the American military school lads in this new film - beefed and belligerent to a boy, the transition to barbarism loses its shock value and its witty incongruity.

The film is also dully directed: as if Hook were caught rabbit-like in the glare of Hollywood attention and suddenly found himself robbed of the subtle, instinctive fluency he brought to *The Kitchen Toto*. Of the new American movies with zero input from Great Britain, the alpha and omega are *Midnight Blues* and *Joe The Volcano*. The first is a headily cross-grained crime thriller about a genial psychopath (Alec Baldwin) outwitting a blundering police detective (Fred Ward). Baldwin steals the show. Last seen as a CIA suit chasing Sean Connery across the desert in *The Hunt For Red October*, he here swaps goggles for beddie role and turns in a performance of glittering fun. This should prove as momentous a career move as Michael Douglas's leap from hero to villain in *Weekend Update*, which won him an Oscar and a \$5m asking fee.

John Patrick Shanley's *Joe Versus The Volcano* is a



Julia Roberts and Richard Gere in "Pretty Woman"

strange horse from the Spielberg production stable. Did we say horse? More shaggy dog. Tom Hanks is the Candide-like innocent who shakes off his soul-destroying job in a rubber goods factory to hop across the world towards self-immolation on a South Sea island. Why? Because the natives need a human sacrifice to appease their local volcano and because Dr Robert Stack has told Hanks he has a terminal "brain cloud" and six months to live.

He should, as heroine Meg Ryan gently points out, have got a second opinion. But then we would have had no film. A mixed curse perhaps, the film we have is whimsical, episodic and flatly acted by the normally bubbling Mr H. Even his moments of champagne enthusiasm - a giant moon, a raft made of travelling trunks, Miss Ryan - could not save it from early box-office demise in America. US filmgoers may be fooled by the odd indie-bug but they seldom fail to recognise an outright, ill-disguised turkey.

The only serious competitor to our turtle friends in the box-office stakes out West is *Pretty Woman*. Fancy Julia Roberts as a Los Angeles prostitute dreaming of better things? Richard Gere certainly does. A business tycoon from the East Coast, he collects her from the sidewalk while seeking directions to a posh L.A. hotel and accepts her as company during a week of crucial business meetings. Two conditions. She must learn to speak proper, and she must swap her

skimpy hooker's clothes for expensive gear from Rodeo Drive. *Pygmalion*, please meet *Irma La Douce*. And who is making the introduction? Good heavens, none other than the Disney company, last seen making a film about a stripper (*Blaze*) and now devoting itself to a streetwalker. We had better put dear Walt on permanent revolve in his misnamed resting-place.

In fact the film, directed by Garry Marshall, is more innocent than its dramatic persona suggests. It is also hilariously enjoyable, thanks mainly to Ms Roberts. The gorgeous Oscar nominee (*Steel Dawn*) with the bee-stung lip pouts, purls and marry-makes all over the Beverly Wilshire turntable. She renders bearable even the wisecracking twister whereby Mr Gere, humanised by love, turns from a Wall Street shark into a cuddly and compassionate human being.

Mickey Rourke in *Johnny Handsome* turns from a nasty accident in the make-up department into Mickey Rourke. The titular Johnny is a petty crook afflicted with a disfiguring ugliness plus speech defect. Then lo! Arrested after a robbery in which he bests a killer by treacherous cronies, he is given plastic surgery by a kindly scalpel-genius (*Braveheart* Forest Whitaker). Will Mr Rourke's outer reformation be matched by an inner one? Keep watching.

Or not, as you wish. For myself, I kept wishing director Walter Hill (*48 Hours*, *Southern Comfort*) would use advanced

surgery to remove the film from its casing of turgid stylistic cliché. Pursued by Ry Cooder's twanging musical lament, our hero gropes through an eternal night of film noir visuals and ten-minute egg dialogue as he seeks the sunny hoodlums (Ellen Barkin, Lance Henriksen) who terminated his ex-lover.

Everyone speaks with an exaggerated "Berth" accent, except for Sister Luke the speech therapist who has to give Mr Rourke his how-now-brown-cow lessons. Since Mr Rourke is not known for his Gielgud-like articulations at the best of times, the change is not spectacular. All in all, the film is distressingly silly. In his best movies, Walter Hill has a flair for making comic-strip two-dimensionalism seem close cousin to tragic distillation. (He famously presented *Warrior* as a modernist version of Xenophon's *Anabasis*.) But *Johnny Handsome* seen less distillation than canned melodrama, reached down off the shelf and opened with a "Here we go again" automaton.

Finally, a foolish treat for monster collectors. *Leviathan* is the tale of a deep-sea mining station manned by something unappealing. We allude not to the script - though that would qualify - but to the yucky metamorphic "thing" that comes out of the sea and hails around gobbling up crew members. Ten for special effects; two for storyline (*Alien* meets *The Abyss*) and direction (by George "Rambo" Cosmatos).

Nigel Andrews

## Handel's 'Flavio' revived in Monte Carlo

"An anti-heroic comedy with tragic undertones" is Winton Dean's description of Handel's *Flavio*, produced for a few performances at the King's Theatre in the Haymarket in 1732. Though it has been seen in our day (at Abingdon, for example), *Flavio* has not featured prominently in the post-war Handel revival. The mixture of satirical comedy and tragedy may worry historians wishing to categorise it, but it did not noticeably displease last week's audience at the Salle Garnier, Monte Carlo, where *Flavio* was the operatic attraction of the "Printemps des Arts" festival - mainly concerts and star recitals. Perfect material indeed for a spring evening in this opulently intimate theatre - three acts of widely varied arias depicting a sequence of painful or absurd predicaments, more evenly distributed than usual with Handel between the principal voices.

The original London cast, including Cassand, Durastanti and Anselmi, the Robinsons, starchy. The international team chosen by René Jacobs, the

conductor and baroque specialist, was noticeably slinky but, more importantly, very good at negotiating the stream of melody with beguiling ease - fluent, light and expressive Handel singing with finely judged decoration. There were two accomplished counter-tenors from the US, Jeffrey Gail as Flavio King of the Lombards (joined by a fine tenor of arias as the Italian hero in *The Rinaldo*), whose subtlety to Dark Age Lombardy seems to have been ignored by history books) and Derek Lee Ragin as Guido, son of the councillor Ugone.

Lena Loutens impressively sustained the chief soprano role of Emilia, who has a fine run of arias as she laments her fate - Guido, the man she loves, urged on by his father who has been, she thinks, mortally insulted, has slain Emilia's father. The breeches role of Vitige, Flavio's deceitful friend and rival in love for Teodato, was stylishly done by Christian Ege, who has the enviable gift of keeping still. The dark, grubby contralto of Gloria Banditelli as the much-desired Teodato made

effective contrast with the two soprano and bass roles of the two councillors, Ugone and Lotario, were taken by Gianpiero Fagotto and Ulrich Messelthaler.

Christian Gagneron's good-looking production was tactful alike in scenes of courtly banter and fiercely erupting passions. The latter were an architectural set, already changed in the twinkling of an eye (if only other theatres could do likewise), and outstanding costumes by Claude Masson, including a superb cloak for the ostentatious sovereign, were a bonus. The opera has been enjoyed by the audience since its first performance in 1732, and the Ensemble 415 - Chiara Bianchini in place of the Concerto Kohn heard at Monte Carlo) and identical cast (except for Bernard Fink as Teodato) at Harmonia Mundi France on 901812.12, 3 CDs. *Flavio*, already seen at Hamburg last August, will be repeated at Caen and, in a concert version, at Beaune in Burgundy.

One of the Festival recitals was given

in the Auditorium of the Congress Centre) by Grace Bumbry, with Jonathan Morris at the piano. Groups of Brahms, Fauré and Strauss were tactfully underpinned with arias by Spontini (*La Vestale*), Massenet (*Hérodiade*) and negro spirituals. The voice has a metallic ring now but the power is lost in check. The soprano, like Fauré for whom it is really too heavy, by almost sculptural phrasing. Not all the songs responded as well to the high treatment as Brahms's "Von ewiger Liebe" and Strauss's "Die Georgine". Of the arias, "O nome intenero", the line moulded with grave authority, was even more winning than the pleading "Il est doux, il est bon." Not for the first time the mezzo aspect of Bumbry's art pleased more than the soprano. As a final encore the Seguidilla from *Carmines*, scaled to the arena, was where the artist will show the real thing. The number, was sultry-humorous, aggressive and vital.

Ronald Crichton

## The Table of Two Horsemen

GREENWICH THEATRE

A perpetual dusk sets both mood and theme of Arthur Frewen's play: the wailing of Empire finds a sentimental reflection in the end of the day, a time when cavalry officers swing their sundowners on the immaculately coiffed lawns of the Rawalpindi Club in the exquisitely poignant knowledge that things so perfect cannot last. The year is 1942, and awareness of the war raging above and beyond them merely infuses the Forgotten Army with Chekhovian melancholy. Gandhi has been arrested, but the only representative on stage of his people is the anxious, humble figure of the club servant - an elderly Hindu who, it turns out in a second act set four years later, is probably destined to have his throat cut once he has lost the protection of his colonial masters.

Frewen displays no particular insight into India except for the bit of it that needles close to the public school in the affections of a certain class and generation of Englishman. Like the public school (to which all his characters, bar the woman and the Indian, undoubtedly went) it is a place of honour, sport and comradeship which can too easily spill into dishonour, love and loneliness.

The catalyst in this case is a gorgeous young lieutenant, who is adored by men and women alike. He recites poetry like an angel, fathers an illegitimate child and finally precipitates the suicide of the doting, curmudgeonly Major (non-sportsman, smoker and public school hater) who has quietly loved him throughout.

The most striking thing about Christopher Reashaw's languorous production is that it is chock full of beautiful men

who pursue the ambiguities of their relationships with a quiver and twitch by way of emotional outpouring. Rupert Frazer's has only to shift in his chair for the Major's mood to change from intense irritation with the club buffoon (a refreshingly robust Shaughan Seymour) to equally intense infatuation with the boyish charm of Angus Pope's Tom. The play is most successful in its delicate opening scenes when the nature of the relationships is at its most oblique - a quality only preserved in John Moulder-Brown's portrayal of Nick, the poetry-quoting ex-schoolmaster, incongruous in khaki, who sensitively and selflessly supplies the third corner of two triangles. His closeness to

Tom, a former pupil, propels him first into the confidence of the Major, and then into marriage to his protégé's abandoned mistress, neatly drawn by Rebecca Saire.

By the second act one is waiting for something to happen to change the tempo and the direction of what has up to now been an absorbing though amble through the emotions. But four years of active service, the end of the war and, imminently, of the Empire, have failed to do any more than darken Liz da Costa's skyline backdrop and deepen the air of despondency to a suicidal purple. One looks in vain for unexpected cloud formations in wider horizons.

Claire Armitstead



Angus Pope and Rupert Frazer

## Fashion

TRICYCLE THEATRE

Doug Lucie's award-winning play arrives at the Tricycle in Kilburn up-dated and tightened up. Time has been both kind and unkind to this political saga of the dubious machinations of the Cash Advertising Company to win the advertising account of the Conservative Party.

The party obviously now desperately needs the help of the experts who, in the words of Paul Cash, "tell lies for a living" but Lucie's sympathies, with the Outside Left look more than a little sick after the upheavals in Eastern Europe.

He was lucky to get away with a line like "real socialism has not been played without raising a hollow laugh. In fact the political histrionics in an over-long Act 2 sit oddly and uncomfortably on the taut

playing of Act 1. David Bowie's "Fashion" leads the way into a pale dawn which sees a naked Cash rise from his office couch to perform calisthenics while listening to his Anasone massages. As Paula Freeman re-creates the manner of a character who falls into a lonely melancholy by the end of the act when, naked again, he responds to Paul Higgins' rent boy's demand "I want a job" with a lapse into truth and "I want love" as he tentatively touches his new employee's chest.

The stage seems set for a study of mediated attention but "right on" politics raises its predictable head and on troop the acting clichés - the Brian Walden-type Labour turncoat; the ruthless Tory candidate

Thatcher clone; the socialist film director whose principles have sunk to the level of his beer gut. Apart from the agency secretary, all the characters range from the very to the totally ominous and their awfulness can hardly fail to alienate an audience.

Still the writing is spot on, the plot taut and devious enough to prevent tedium. Robin Soans, as the sold-out political commentator, Jim Carter, as the film director whose soft heart just about redeems his apathy and Lorna Heilbron as the Tory Delilah, make the most of the meatiest roles and of Michael Attenborough's speedy direction.

Antony Thorncroft

## Uchida's Bartók

FESTIVAL HALL

On Tuesday Mitsuko Uchida played the *First Concerto* with the Philharmonia under Edo de Waart. The pianist's free-spirited approach to music of all periods is one of the joys of current concert-going; and her Bartók, following recent Uchida performances of Schoenberg, Ravel, Schumann, and Debussy (whether chamber-music or solo, "live" or recorded), offered further proof - if any were still needed - that her artistic horizons are limitless wide.

It was a reading of extraordinary concentrated strength. Miss Uchida's projection, alike in passages stampingly loud and whisperingly soft, is so

precise, so true of focus, and so ready in application of tone colour, that details can be made to tell without any reliance on the more obvious Bartókian atmosphere-creation devices. The rhythms were delineated with cat-spring exactitude; witty, teasing tricks were played with metre and accent in a way that removed from Bartók's pounding octaves all danger of the merely mechanical.

Above all, there was a feeling of taut, unsentimental poetry about the solo playing of which the Philharmonia wind and percussion answered quite brilliantly - Miss Uchida is obviously a pleasure to part-

ner, quite as much as she is to listen to.

In all, a solid professional whose newly-restored partnership with the Philharmonia is plainly a Good Thing for all concerned, drew brightly energetic playing all evening. *Kodály's Dances from Galánta* (distinguished by Michael Collins's coolly elegant clarinet solo) and the original version of *Petrushka* (in spite of some rather flawed trumpet work) completed an exhilarating programme: in orchestral terms perhaps the final degree of imaginative engagement were missing, but not much else.

Max Loppert

## ARTS GUIDE

## EXHIBITIONS

## London

**The Tate Gallery.** The entire permanent collection has been returned so that the visitor may now take a second journey through the newly restored galleries, from 16th century British painting through to the most recent of modern international art. It is a curatorial triumph.

## Paris

**Grand Palais, Soliman Le Magnifique.** A treasure trove of goldsmiths' work, miniatures, ceramics and textiles recalls the splendour of the reign of Soliman "the shadow of God on earth", whose Ottoman Empire stretched in the 16th century from the Caucasus to the gates of Vienna and from Algeria to the Persian Gulf. Deep blue, red and green, patterned with gold shines from a portrait of Soliman. Arabesque wind and swirling innumerable, flows motifs combine with peacocks and dragons on blue, white and turquoise plates and dishes. Closed Tue, Wed late closing, ends May 14 (43895410).

**Petit Palais, James Ensor 1859-1949.** A retrospective of 100 paintings, 130 drawings and etchings brings to mind Ensor's provocative boast of "I am mad, I am stupid, I am nasty". Born in the land of Jerome Bosch and brought up in Ostend in a shop of seaside souvenirs full of carnival paraphernalia, he peoples his nightmarish universes with skeletons and grinning masks. Closed Mon, ends July 22

**(43891272).** *Week of Ormsy.* The Fragmented Body. Parts of the human body, or the incomplete body form the leading strand of an exhibition beginning with ex-votos and religious images, culminating in a celebration of Degas, Bourdelle, Maffei and especially of Rodin, with his mastery transition from realistic to abstract sculpture. Ends June 3, closed Mon, entrance Quai Anatole France (4044814).

**Grand Palais, Pre-Columbian Art in Mexico (1500BC - AD1521).** Some 130 exhibits from Mexico's archaeological museums bear witness to the high degree of artistic development of the Mayas and Aztecs. A deep religious sense imbues their imaginary world peopled with divinities often represented as jaguars and serpents. Closed Tue, late closing Wed, ends July 30 (43895410).

## Brussels

**Musée d'Art Moderne.** Retrospective of the Belgian abstract/expressionist painter Eugène van Amerlegh (1898-1980). Closed Monday, ends May 13. **Hôtel Communal de Schaerbeek, Place Collignon - Treasures of the 19th century.** Works by Constantin Meunier, Jef Lambeaux and other Brussels artists of the 19th and 20th centuries, daily except holidays. Ends June 11. **Key Brachet, Portrait of the Face gallery of New York.** Calder, Delunier, Picasso, Rothko and others. Ends June 22. **Musée Wellington-Waterloo.** Medals sur Waterloo commémorates the 175th anniversary of the Battle of Waterloo. Daily,

ends July 31.

## Ghent

**Museum voor Schone Kunsten.** Flemish Expressionism in a European Context (1900-1930) with works by De Stijl, Ernst, Perle, Van den Berghe and Zeldene. Closed Monday, ends June 10.

## Venice

**Palazzo Grassi.** Andy Warhol Retrospective. 250 works from the major exhibition organised by Kynaston McShine for the MOMA in New York last spring, to which have been added about a dozen from private Italian collections. Opening with Dick Tracy (1980) and closing with Warhol's version of Leonardo's Last Supper, completed shortly before his death in 1987, the exhibition concentrates on the early works, 1960-1967. The famous Marilyn, Liz, and Coca-Cola series are shown to excellent effect in a particularly skilful layout by Gae Aulenti, in collaboration with Pontus Hultén. Until May 27.

## Rome

**Basilica di Santa Maria in Piazza San Pietro.** Works by Constantin Meunier, Jef Lambeaux and other Brussels artists of the 19th and 20th centuries, daily except holidays. Ends June 11. **Key Brachet, Portrait of the Face gallery of New York.** Calder, Delunier, Picasso, Rothko and others. Ends June 22. **Musée Wellington-Waterloo.** Medals sur Waterloo commémorates the 175th anniversary of the Battle of Waterloo. Daily,

by Raphael, Rubens, Annibale Carracci shows the influence of Michelangelo's powerful influence, the exhibition also carefully documents the techniques used and the difficulties encountered by the restorers. Particularly interesting is the 1541 copy of The Last Judgment, by Marcello Venusti, lent by the Capodimonte Museum in Naples, showing the brilliance of the original colours. Ends July 10.

## Munich

**Kunsthalle der Hypo-Kulturbank.** Theaterstr. 15. Joan Miró a collection of sculptures and previously unpublished drawings by Miró will be on display in Munich's Kunsthalle until June 17. There are about 180 examples of the work of the Spanish surrealist artist, who died in 1983 at the age of 90.

## San Francisco

**Modern Art Museum.** Growing on the 50th anniversary of Paul Klee (1879-1940) in honour of the 50th anniversary of his death with around 100 oil paintings, watercolours and drawings from all periods, to be seen until May 27. This is one of the most comprehensive Klee exhibitions ever.

## Vienna

**Kunsthof.** Works by the Miro, Retrospective of Paul Klee (1879-1940) in honour of the 50th anniversary of his death with around 100 oil paintings, watercolours and drawings from all periods, to be seen until May 27. This is one of the most comprehensive Klee exhibitions ever.

## New York

**New York Public Library.** More than 125 documents of the Abolitionist Movement, including photographs, letters and rare books, display the spirit and drive of the long effort to free the slaves. Ends Sept 15.

## Washington

**National Gallery.** A Joint Soviet-American collaboration brings together Matiss's fruitful and arguably pivotal work in Morocco during his visit in 1912-13 including 25 paintings and 45 drawings, among them the famous Moroccan Triptych from the Pushkin Museum, never before exhibited in America. Ends June 3.

**National Museum of African Art.** The national trust of artistic and religious objects, much of it sculpture, assemblage, and other centuries of Yoruba civilisation. Ends Aug 26.

**National Museum of Women in the Arts.** The first major retrospective of the work of Dana Elizabeth Frank includes 60 sculptures and 25 drawings, including monumental bronze casts of male figures, portraits and animals in characteristic roughly textured heroic poses. Ends July 4.

## Chicago

**Chicago Historical Society.** The Land of Lincoln does its most famous citizen proud in the exhibition *A House Divided*. America in the Age of Lincoln, with documents, mementos and personal effects of the Great Emancipator. Chicago Historical Society. A

special exhibit of Frank Lloyd Wright's designs for his windows, furniture and silver shows why the details completed the Wright look. Ends June 17.

## Tokyo

**Tokyo National Museum.** National Treasures of Japan. Painting, sculpture, calligraphy, art was played with metre and accent in a way that removed from Bartók's pounding octaves all danger of the merely mechanical.

**National Museum of Western Art.** Bruegel and Dutch Landscape. 68 paintings on loan from the National Gallery in Prague. The centrepiece is Pieter Bruegel the Elder's magnificent *Haymaking*, with its wealth of circumstantial detail, and the focus is on the development of landscape painting as a genre from its beginnings in 1500 to the mid 17th century.

**Museum of Modern Art.** In Pursuit of the Dragon: Tradition and Transition in Ming Ceramics. Major examples of Chinese porcelain drawn from the museum's own extensive collection. **Shoto Museum, Shibuya.** Post-war Japanese Art. Paintings, sculpture, and other works by members of the Gutai Bijutsu Kyokai group, who tried to fuse a distinctive Japanese avant garde style. Fascinating.

**Museum of Modern Art, near Meiji Station.** The Kahnweiler Collection. Major works from the personal collection of the art critic and dealer who promoted the work of Picasso, Braque, Gris and other pioneers of Cubism.

## SALEROOM

May 4-10

## Cold wind of reason

The salerooms in New York are this week rediscovering Newton's law of gravity that what goes up must come down. Contemporary art, mainly the output of the post-1945 New York school of abstract expressionists, enjoyed a sudden price surge for two years, culminating in extraordinary prices in New York last November. Now the reaction has set in.

On Tuesday Sotheby's made \$55,574,500 (£23.5m) from its offering of 53 lots but by value 31 per cent was bought in, and the auction did not reach its forecast. Obviously vendors were still expecting the price levels paid last year. Instead bidding was more cautious.

The clearest indication of the cold wind of reason was shown in the prices paid for Willem de Kooning. Last November "Interchange" by this Dutch born American artist topped \$20m (£3.5m) a record for a work by a living artist. On Tuesday Sotheby's was hoping for up to \$12m for his "Woman as a landscape", a key work of 1954 which reflected his evolution from figurative abstraction to the "landscape" paintings. It was unsold, with the bidding stopping at \$4.75m, half its low estimate.

"Palisade", an early "landscape" abstract of 1957, did sell, for \$7.15m (£4.3m), to the dealer Richard Gray, but the price was under its low esti-

mate. Obviously de Kooning went too high, too fast, and Sotheby's and sellers misjudged the depth of demand. As Lucy Mitchell-Innes of Sotheby's pointed out, before the \$20m paid for "Interchange" the auction record for a de Kooning had been just \$3.6m. She also highlighted the precipitous growth in the contemporary art market in New York which in the five years up to 1989 expanded twenty fold, from \$15m to \$350m.

One of Francis Bacon's "Popes" sold for \$5.5m (£3.3m), at the bottom of its estimate, while his 1968 portrait of his friend, the artist Lucian Freud, actually exceeded its high estimate at \$6.5m (£2.2m). There was a record for Cy Twombly of \$5.5m (£3.3m), paid by a Japanese dealer for "Untitled", an oil and crayon of 1971, and also, among ten artist records, new highs for Morris Louis; Frank Auerbach; Helen Frankenthaler; and Larry Rivers. Twelve paintings topped \$1m and at least there was still strong Japanese interest in a field long dominated by new rich Americans.

The contemporary sale at Sotheby's, following on a very similar experience by Christie's on Monday, suggests that the key impressionist and modern picture auctions next week will be tense affairs.

Antony Thorncroft



## FINANCIAL TIMES

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Thursday May 10 1990

## A triumph for common sense

THE latest proposals for VAT administration are a small step for the European Commission, but a giant step for the Community. For they should allow the disappearance of fiscal checks at the frontier, at least as far as VAT is concerned. One of the prime symbols of the completion of the internal market would thus be achieved.

The proposals, described as transitional, build on the current VAT systems of the EC, which are based on the "destination" principle. At present, therefore, the rate of VAT depends on where the goods are sold. Exports are zero-rated, with VAT levied on imports at the rate of the country of importation.

The question has been whether it is feasible to continue with such a system, when there are no checks at the border on whether goods are, in fact, exported. The proposals advanced by the UK Treasury in September 1988 stressed that "frontier barriers cannot be removed in one go".

The Commission's present proposals, which have now received the endorsement of Her Majesty's Customs and Excise, go well beyond this. Mrs Christine Scrivener, the Commission's director for fiscal policy, suggests that all border controls over VAT transactions should be abolished from the beginning of 1993. None the less, the current VAT system, based on the destination principle, is to be retained, at least until 1993.

## U-turn

Both the Commission and the British Government have now welcomed a combination that they had previously condemned as unworkable. For the Commission had insisted upon a prompt change in the VAT system to the "origin principle", while the British Government was determined to maintain border checks.

The approach of 1993 has, like hanging, concentrated the mind. Suddenly the Commission has discovered that fiscal frontiers can be abolished without a change in the basic operation of the VAT system, while the British Government has discovered that the new system can be policed without checks at the frontier.

## Whose pension surplus?

THE question of who owns a pension fund surplus may be an old chestnut for pension lawyers, but it resolutely refuses to go away. Pension fund contribution holidays are still the subject of acrimonious argument between management and unions - witness the row over British Telecom's decision to suspend payments into its staff pension scheme last year. And there has been a number of cases in recent months where the courts have been required to deal with the treatment of surpluses in pension schemes of companies that have gone to the wall. If anything the judges have confused rather than clarified the general issue, while showing a tendency to regard what is left in a fund after defined benefits have been paid as belonging to the employer.

The most recent case in point concerns the pension fund of Richards & Wallington Industries, a plant hire group which went into receivership in 1981. The judgement here is likely to apply only in very rare circumstances because of the flawed nature of the particular trust deed. But part of the underlying reasoning, which echoed earlier judgements, was that an employer who pays for the cost of pension benefits over and above the employees' fixed contributions should be entitled to any surplus because it represents an overpayment by the employer.

## Deficiencies

At first sight the argument appears plausible enough. If the company provides a guarantee of solvency and tops up a pension fund when it runs into deficit, entitlement to any pension fund surplus might seem a fair reward for risk. Yet employers rarely undertake a legal obligation to make good a deficiency. In practice many simply allow deficiencies to persist from one actuarial valuation to another until, say, a favourable change in investment returns corrects the shortfall.

There have, admittedly, been some big payments by employers into funds in the past. But companies were quicker in the 1980s to take advantage of surpluses through contribution holidays than they were in the mid-1970s to meet deficiencies

with hard cash. More fundamentally, the idea that a surplus derives from overpaid employers' contributions is open to question. The huge surpluses that accumulated in British pension funds in the 1980s reflected the fact that the average pension fund's investment income rose faster than prices or wages. In the end the surplus boiled down to another old and related chestnut: whether pension benefits represent deferred pay or a paternalistic hand-out from an investment trust that is increasingly regarded as a profit centre for the company.

## Paternalism

In cases where the courts have to decide how to treat pensions in liquidations of companies, judges almost invariably opt for the deferred pay approach. With the pension schemes of companies in liquidation, paternalism tends to prevail. It seems doubtful whether people who regard the money as part of their pay package would voluntarily choose such paternalism if it were presented to them in its true colour. And if the commercial logic of running a pension scheme is to attract and retain employees, this is surely not the way to do it.

Many pension consultants, meantime, would prefer to get away from arguments about who owns which bit of the fund and concentrate on protecting the fund to secure the members' benefits, which is what a good trust deed should anyway set out to do. To that extent, the present Social Security Bill, with its proposal for independent trustees and cost of living increases for benefits up to a ceiling of 5 per cent, is a step in the right direction. But with inflation close to double figures again that is no panacea for those whose employers prefer to comply with the minimum required by law rather than best practice. And in the absence of a clearer legal framework, the growing squeeze on corporate sector liquidity is sowing the seeds of trouble later in the decade. Gradualism, it seems, is the guiding motto of those who make policy on occupational pensions.

Tomorrow is Black Friday, and the headline inflation rate will be the worst item of economic news, in populist terms, for the Thatcher Government since it took office. For the combination of the poll tax, higher mortgage rates, the Budget increase in excise duties and other lumpy increases, such as local authority rents and energy and water charges, will take the annual increase in the Retail Prices Index to its highest since 1982. Even if the headline rate falls just below the dreaded 10 per cent figure, the Government will not be out of the wood. For the headline rate is likely to rise further by late summer. According to Gavyn Davies of Goldman Sachs the peak will be around 10 1/2 per cent in August and the rate will remain above 9 per cent in the final quarter of this year. Less pessimistic analysts see the peak just in single figures by a couple of decimal points. But there is little dispute about direction.

The continued rise over the summer will in part be a matter of the accident of how the RPI was moving a year ago. For the second quarter of 1989 was relatively flat, which will make performance in the coming months seem worse. But much more important is a likely genuine deterioration.

The underlying inflation rate, excluding mortgage payments and the poll tax, rose from below 4 per cent in 1987 to 6.3 per cent this March. It is being further boosted by rising pay settlements and the depreciation of sterling over which a professionally anti-inflationary Conservative Government has presided. Goldman Sachs sees the core rate of inflation, excluding both mortgage rates and the poll tax, rising to a peak of 7 1/2 per cent in mid-year and then declining only very gradually, but still near 6 per cent in late 1991.

Like most other forecasters, it expects a sensational collapse in the headline rate of inflation to less than 5 per cent in the second half of 1991. This is on the assumption that the Government will get mortgage rates down by 3 percentage points even if this means joining the Exchange Rate Mechanism and the depreciation of sterling over which a professionally anti-inflationary Conservative Government has presided. Goldman Sachs sees the core rate of inflation, excluding both mortgage rates and the poll tax, rising to a peak of 7 1/2 per cent in mid-year and then declining only very gradually, but still near 6 per cent in late 1991.

As the letter columns of this paper show, there is strong resistance, especially among small businessmen, to the idea that high interest rates are an appropriate weapon for reducing inflation. There is, moreover, a genuine paradox to explain. Economies with low inflation rates have low nominal interest rates as a price at any time of either short-term rates or bond yields, will confirm. There is thus implicit in a successful orthodox monetary squeeze an extended sequence in which interest rates first rise, then return to their old level and eventually fall back further - a sequence which is never explained to the public.

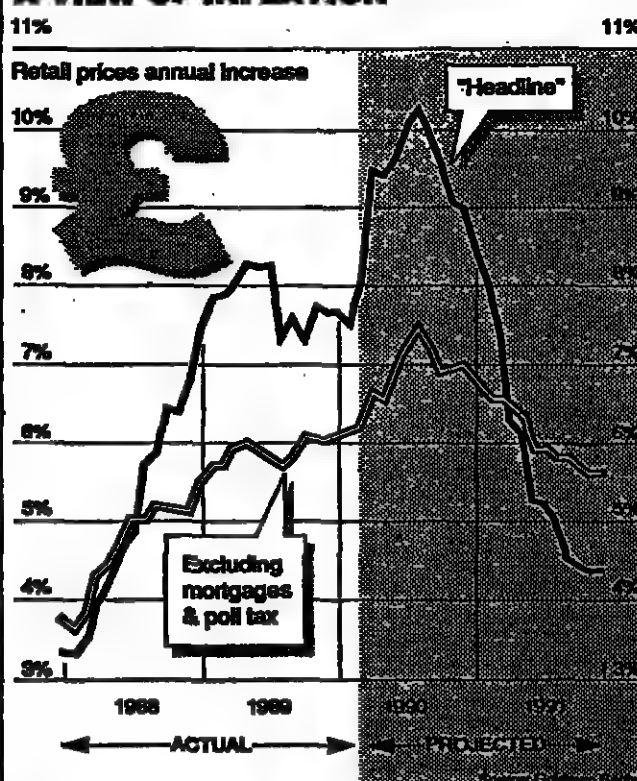
An article in the May Bank of England Bulletin, released a

## ECONOMIC VIEWPOINT

## Dark day and after

By Samuel Brittan

## A VIEW OF INFLATION



day ahead of publication, entitled *The Interest Rate Transmission Mechanism in the UK and Overseas*, is a long overdue attempt to explain. It does not tackle the fundamental questions I have just outlined. But it does argue that recent financial changes have made interest rates more effective rather than less.

The bulletin authors identify several ways in which higher interest rates might affect spending. (1) The relative cost of present and future expenditure changes. If you defer spending, whether on consumption or investment, you can spend more because of accumulated interest. If you insist on spending now, you spend less than if you had waited. This substitution effect is always pro-saving and anti-spending.

(2) Higher interest rates squeeze the income of borrowers and increase the income of

creditors. The Bank believes that the last effect is restrictive, because borrowers have a higher propensity to spend. (2b) Higher interest rates reduce the value of assets such as houses, equities or government stock. The resulting wealth effects reduce spending, especially in the personal sector.

The wrong way to read the Bank of England's bulletin is to say that sterling must be allowed to go where it will with no EMS or other constraint. This would be to ignore the experience of other European countries. The correct reading is that tight money prevents sterling from falling when otherwise it might. If sterling is held stable against a group of non-inflationary currencies, there is no way in which the price of UK exports can fall relative to other currencies. This is not a desirable outcome.

Channels (2b) and 3 have been far the most important ones. As the Bank points out, a restrictive influence along any

Bank Model Simulation					
Effects of 1 per cent rise in all interest rates					
Percentage difference from base	4th quarter	8th quarter	12th quarter	15th quarter	18th quarter
GDP	-0.4	-0.7	-0.9	-1.0	-1.1
Consumer expenditure	-0.6	-0.9	-1.2	-1.3	-1.4
Investment	-1.9	-2.2	-2.5	-2.6	-2.7
GDP deflator	-0.1	-0.2	-0.3	-0.4	-0.5
Retail price index	0.3	0.2	0.1	0.0	-0.1
Average earnings	-	-	-0.4	-0.5	-0.6
Effective exchange rate	-	-	-	-	-1.5

\*Exchange rate fixed; exchange rate free

one of them produces second-order effects on activity. Thus they become merged in practice.

Some of the most important reasons why interest rates now bite more deeply spring from financial liberalisation and the easier availability of credit, especially for house purchase, together with the greater confidence in the economic future, prevailing during most of the 1980s.

Increases in the numbers taking on mortgage debt, in the ratio of loans to income, and in the proportion of purchase price covered have all increased debt servicing costs. First-time buyers are particularly vulnerable, as the proportion of disposable income required for debt servicing has risen from 20 per cent in 1982 to 26 per cent in 1987, and 38 per cent in 1989. In the London area, the debt servicing burden is 40 per cent.

Moreover, it is mainly the younger households with the greatest propensity to consume which are the largest net debtors. Positive net financial wealth is found on average only among the over-55s.

The increase in debt servicing has made the personal sector more vulnerable to interest rate increases - which are thus more politically unpopular. It has also brought nearer the point at which both borrowers and lenders hesitate to take on more credit for prudential reasons.

The bulletin's formal model is much less impressive than its description and account of magnitudes. After years of playing down interest rates, the model now allows them a big impact on demand, output and activity. But the identified feed-through from reduced activity to lower pay and price rises is extremely weak.

The simulation shown in the table shows the headline RPI actually higher two years after a 1 per cent rate increase, and no lower even after three years. The impact even on underlying inflation (shown by the GDP deflator) is delayed and modest. It only becomes important when exchange rate effects are taken into account.

The wrong way to read the Bank of England's bulletin is to say that sterling must be allowed to go where it will with no EMS or other constraint. This would be to ignore the experience of other European countries. The correct reading is that tight money prevents sterling from falling when otherwise it might. If sterling is held stable against a group of non-inflationary currencies, there is no way in which the price of UK exports can fall relative to other currencies. This is not a desirable outcome.

Channels (2b) and 3 have been far the most important ones. As the Bank points out, a restrictive influence along any

The Bank authors try in one passage to play the relationship between sterling and the non-traded services sector where cost pressures have been most severe. But this is to assume that the economy is divided into rigid compartments and that wage costs can be held down in manufacturing while continuing to soar elsewhere. No doubt in a couple of years sectoral linkages will be more fully taken into account in the Bank's model, which, like all such models, eventually catches up with events.

## BOOK REVIEW

## The survival of the fittest

THE COMPETITIVE ADVANTAGE OF NATIONS  
By Michael E. Porter  
The Free Press £25

THE past decade has seen much inconclusive soul-searching in the US about "national competitiveness", as one industry after another has lost ground to foreign rivals. More recently, each of the debate have spread to Britain, where disenchantment with Thatcherite free-market nostrums has led to calls for more dirigiste policies. But what is national competitiveness - and how is it created and sustained? This book, by an American economist turned management guru, picks the right target: a country's capacity to raise living standards by continuously improving productivity in the output of ever more sophisticated goods and services.

That objective cannot, Michael Porter says, be achieved simply by virtuous macroeconomic policies, still less by currency depreciation. Nor do abundant natural resources and cheap labour any longer guarantee national advantage. Their role has been devalued by advances in technology, communications and capital mobility, which have opened markets to wider international competition.

That does not, however, condemn companies worldwide to compete on the same terms. On the contrary, Porter maintains that globalisation creates sharp national differences. Hence, countries' prosperity will depend increasingly on how efficiently they exploit the particular and distinctive strengths with which they have been endowed by history, circumstance or aptitude.

Porter argues that this process - and the reasons why countries excel in some types of business but not others - can be understood, only by examining the economic environment in which individual industries operate.

His thesis is that the essential mechanisms for creating competitive advantage form a "diamond", representing the interaction of four determinants. These are the ability of countries and industries to create factor advantages - by upgrading investment, research and skills; the quality of demand on the home market; the productivity of company suppliers and "clusters" by closely-related industries; and the intensity of local competition.

This is scarcely a revolutionary insight. Many studies of Japan have stressed the benefits its export industries derive from a highly-educated labour force, discriminating consumers, interlocking supplier relationships and the discipline of fierce rivalry between domestic producers.

However, Porter has sought to test his argument systematically by correlating it with a wide range of industries in 10 countries. Taking world export share as his benchmark, he concludes that in successful

sectors as diverse as Italian tile-making, US medical equipment and Japanese robots, the points of the diamond have all strongly reinforced each other. Conversely, he finds that industries where his determinants are weak have generally lost market share.

The operation of the diamond is closely linked to countries' economic development. This, in Porter's view, follows a progression from initial reliance on basic factors, such as low costs, through an "investment-driven" phase, to dependence on innovation as the main competitive weapon. Beyond that point, failure to continue upgrading national advantage brings "wealth-driven" decline - ie the British disease of living off past economic achievements.

This leads Porter to some rather prosaic prescriptions. Britain needs to improve research and education while continuing to deregulate markets. The US needs to redouble its efforts to encourage innovation, competition and long-term investment. And so on.

He is emphatic, however, that the driving force for progress must come from the market, where only the pressure of relentless competition can force companies constantly to refine their competitive advantage. He is correspondingly scornful of mergers, alliances and direct government intervention in industry, which he views as largely growth-stifling.

But he may overstate his case by insisting that successful companies need a national "home base", built on domestic - as opposed to international - rivalry. In many European countries, fledgling even, one industry has been able to create a scale-intensive industry such as aerospace and public telecommunications manufacturing by becoming a challenge.

Furthermore, the economic importance of national frontiers is called into question by Europe's planned single market. By Porter's standards, Ford of Europe, with no obvious "home base" country, should be in trouble. Yet it has often out-performed its US parent and long-term competitor, General Motors.

Nonetheless, Porter's central message, that competitive advantage is won through an intense Darwinian struggle by individual companies, is refreshing. This book should give pause for thought, at least, to those in the west who think the answer lies in mega-mergers, government intervention or beating Japan.

Guy de Jonquieres

## Holiday plans

IF the European Commission wants to hit the 1992 deadline, it might do well to harmonise holidays. In the past fortnight it has been hard to get all 12 around the table at once. The Monday before last the Dutch celebrated the birthday of Queen Beatrix. Tuesday it was Labour Day in most places, last Monday counted as May Day in UK, and the following day in the French took off to celebrate the end of the war. Yesterday, when everyone else was back at work, the Commission downed tools in honour of the Euro-pioneer Robert Schuman.

Although there will be a brief chance to get something done today, by Friday the Danes will be staying at home again for a General Day of Prayer. Altogether there are 35 days a year that are a holiday somewhere in Europe, and only two, Christmas Day and New Year, are celebrated by everyone together.

It may be out of embarrassment that the Commission has not brought forward a days off directive - the Euro-institutions take more holidays than anyone, and cannot even agree among themselves which days to take. The Commission declines to work on Maundy Thursday, whereas MEPs will work then, but insist on playing on Carnival Monday.

## Moving up

GENE LOCKHART's promotion to chief executive of UK banking at Midland Bank at the tender age of 40 singles him out as a candidate for a top slot in Midland's merger with the Hongkong Bank, if and when it comes off.

Lockhart is very much an outsider at Midland. An American information systems specialist, he has never made a loan in his life. (His qualifications are in engineering and accountancy). His crisp, some

## OBSERVER

would even say abrasive, manner also jars with much of Midland's homelier clearing bank culture.

But he was hand-picked by Sir Kit McMahon shortly after he took over as chairman in 1987, and he has reportedly made a big effort recently to cultivate relations with Midland's staff and customers. His strong belief in the importance of a good back office also likens him to John Reed, the chairman of Citicorp - with whom he shares boyish looks.

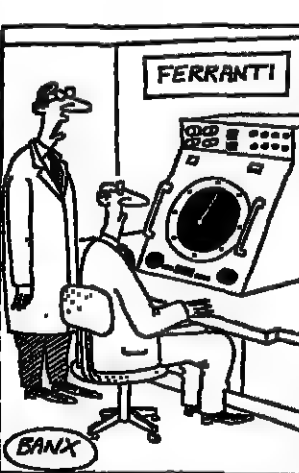
The betting on Midland-Hongkong is that the two banks will form a joint holding company with Sir Kit as chairman and Willie Purves, Hongkong's chairman, as chief executive, in about a year's time. Lockhart could then become chief executive of the Midland bank itself. But, characteristically, the hard-driving Lockhart was too busy yesterday to talk about his appointment.

## The Mousetrap

THE intense rivalry between the new \$60m Universal Studios theme park in Orlando, Florida, and its well-entrenched Walt Disney rival, has taken a macabre, and bloody turn. Opening next month is a spectacular Universal attraction based on the film *Jaws*. As tourists ride by, a 242 mechanised shark surges up a pleasure boat. Among the body bits, tee shirts and other loot that rise to the surface of the artificial lagoon is a pair of Mickey Mouse ears.

## Unarmed

Should Lego men carry guns? The question is causing some debate at the secretive Danish company that makes one of the world's best selling toys. Lego started making wooden toys in 1932 and since



"How can we be sure it works if it hasn't got anything to detect?"

the 1940s, when it branched into plastic construction bricks, has never looked back. It is now one of the world's top seven toy companies but unlike most of its rivals it shuns men of violence. Its first plastic man appeared in 1974, and its unarmed armies of knights, pirates, spacemen and ambulance workers clamber all over the bricks and other Lego parts. Kjeld Kirk Kristiansen, the grandson of Lego's founder, says his family-owned firm sells nothing that depicts organised violence.

However, the rule does not apply to Lego's pre-20th century models on the grounds that any offensive activity by these people can be thought of as romantic. "What would a black knight be if he did not carry a lance or a sword?" asks Mr Kristiansen.

Judging by the 25 per cent jump in Lego's pre-tax profits last year, there seems no pressing financial reason why the company needs to boost sales further by giving the Lego men guns. Nevertheless, there are

tail-tale signs that the ceasefire may not last much longer. Recently, the company introduced a pirate cannon which fires a small projectile. "We had a lot of discussion about this," says Mr Kristiansen.

## Fighting fit

LORD HANSON is one of those businessmen who believes that the playing fields of England produce some of the country's best leaders. Yesterday, the Duke of Edinburgh, in his capacity as president of the Central Council of Physical Recreation, presented the boss of Britain's sixth biggest company, with the Arthur Bell trophy for making the biggest ever contribution to the development of community sport in Great Britain.

Hanson plc has promised the British Sports Trust, the fund raising arm of the CPCR, £400,000 to launch the Hanson Foundation award. The money, equivalent to a quarter of Hanson's annual charity spend, will go to training young people to organise sports in youth clubs and other voluntary associations.

It all sounds very worthy. But Lord Hanson's views on sport do not end with his cheque book. Peter Harper, Hanson's man on the British Sports Trust, says that if his employer thinks you are letting yourself go, he is not afraid of telling you. Meanwhile, I hear from British Airways Lord King, that the 68-year-old Lord Hanson can cycle most quickly than him. But they never need be out of contact for long since their bikes are equipped with mobile phones.

## Bad night

DID you hear the one about the dyslexic, agnostic, insomniac, who lay awake at night wondering if there was a dog?

William Hall

**YOUR VERY OWN MOTORWAY...**

**WITH THE LAKE DISTRICT THROWN IN**

West Lancs with its towns of Ormskirk and Skelmersdale connects nationwide via its own M58 motorway linked to M6 and M62. Only a quick motorway trip from the Lake District, and with the West Pennine Moors and the Yorkshire Dales on the doorstep. Just 30 minutes from the UK's second largest population concentration. West Lancs greenfield sites offer pastures new to industry and commerce.

I would like to know more. To: Fred McEneaney  
The West Lancs Project 1 Westgate Pennylands Skelmersdale  
Lancashire WN8 8LP Tel: 0695 50200 Fax: 0695 50112

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**THE WEST LANC PROJECT**



**Sweden's ruling Social Democrats** may still maintain that the country's traditional neutrality makes membership of the European Community impossible. But over the past three years, the party has become virtually a *de facto* member of the EC.

The recently announced DM4bn acquisition by Stora, the Swedish-owned paper and pulp conglomerate, of the West German forestry products and engineering group Feldmühle Nobel is only the latest evidence of the trend. Many Swedish companies are now convinced of the need to establish a strong presence within the EC in preparation for the single European market.

A recent study by Mr Pontus Braunerhjelm of Sweden's Institute for Economic and Social Research found that the country's 40 largest companies plan to increase their EC investment substantially over the next three years. Between 1986 and 1988, the domestic share of Swedish corporate investment shrank from 83 per cent to 77 per cent, while the proportion going into the EC rose from 9 per cent to 14 per cent and is still rising.

According to one recent prediction by Nordic economists, Swedish companies already produce about 45 per cent of their total EC sales. The Community, and the proportion will rise to nearly 60 per cent within 10 years.

These trends are having an impact on employment patterns. An estimated 62 per cent of the 923,000 people employed by Sweden's top 25 industrial companies work abroad, more than half of them in the EC. It has been estimated that last year alone, the companies' overseas labour force showed a net increase of 49,400, while net employment in their Swedish plants declined by 3,800. This development is expected to continue through the 1990s.

So far, there is no sign that other big Swedish companies are ready to follow Stora's lead. The packaging company, and IKEA, the DIY furniture group, and move their corporate headquarters into the EC. But a growing number have decided to establish financial operations there, in the Netherlands and Luxembourg.

Of course, not all the important activity by Swedish companies abroad involves the EC. The electrical engineering company Asea Brown Boveri of Switzerland for a merger in the autumn of 1989, with the Swedish company General Motors over Fiat as a partner for the saving of its car operations. The largest acquisition by the mining group Tröteberg last

## Swedish direct investment abroad

	EC	US	UK	West Germany	France	Netherlands	Nordic*
1982	2,965	1,845	964	586	274	290	778
1983	4,118	4,665	886	469	168	959	2,531
1984	12,549	4,751	2,991	2,307	393	1,552	7,645
1985	26,427	5,597	5,658	2,327	432	1,558	15,903
1986	34,915	7,951	9,525	2,327	432	1,558	15,903

(1989 figures preliminary)

\* Includes Norway, Finland, Denmark, Iceland, Sweden, and the Faroe Islands



## Robert Taylor on an outsider's EC offensive Sweden comes in from the cold

year involved the Canadian-owned Falconbridge, while SKF acquired Chicago Rawhide, and Electrolux bought Roper, America's large garden equipment producer.

But statistics produced earlier this year by Translink European Deal Review found that of 120 foreign acquisitions made by Swedish companies in 1989, 23 were in the UK, 19 in West Germany and 16 in Denmark. Only French, West German and American companies made more acquisitions within the EC than Sweden.

Companies currently mounting EC offensives include:

• Asea-Brown Boveri, which in its drive to become a truly pan-European company has acquired ABB's West German turbine-making unit, and in Italy, boiler and turbine maker Franco Tosi as well as the state-owned Finmeccanica group in the past 18 months. It hopes to benefit strongly from the opening of public procurement in EC countries to competitive tendering.

• Ericsson, which although a global player in telecommunications, has its eye on the coming liberalisation of EC communications networks and particularly on the innovative German market.

• Volvo, Scandinavia's biggest company. It already has auto, truck and bus operations in the EC and has shown it intends to deepen its presence

through its Renault alliance. • Procordia, the state-owned food processing and pharmaceuticals company which acquired six European companies last year (though not all were in the EC).

• Trelleborg, the industrial company, which made seven acquisitions.

• PLM. Now Europe's fifth-largest packaging company with growing activities in Germany, it has expanded in the past two years by purchasing Redfern, the British glass manufacturer and flexible packaging group, the Dutch-based Glasindustrie Dongen and a beverage can plant at Toulon in France.

Swedish industry's interests have been global ever since the country's late industrial revolution at the turn of the century. The domestic market in a country with only 8.4m people has always been too small for its main manufacturing companies. However, until recently overseas growth was seen as a complement to domestic expansion, and North America looked to be more attractive as a market than western Europe.

Now the picture is changing rapidly, to the undiluted surprise of many politicians and trade unions in Sweden, who fear that the outward stream of corporate activity is turning into a flood. In 1988, for the first time, Swedish com-

panies spent more capital abroad than at home. And as the pace has accelerated, the focus has changed, with many companies drawing up pan-European strategies.

The determination of companies to create a stronger presence within the EC stems from a deep uncertainty about Sweden's future outside. There is great scepticism in industrial circles as to whether the current discussions between the EC and the European Free Trade Association on establishing a "European Economic Space" will prevent discrimination against Swedish industry within the EC. The companies most affected by this understandable fear of Fortress Europe are in pulp and paper, parts of the chemical industry and engineering.

But attitudes towards the EC are not just being shaped by pessimism about staying out. Many Swedish companies take a highly optimistic view of the gains to be made from the single market. The nearer to the geographical centre their operations are based, they reason, the more likely they are to benefit.

One negative consequence of this, argues Mr Braunerhjelm, is that the services use ratio is increasingly being invested in Swedish companies' EC plants to the detriment of their domestic production facilities. There are also strong domestic

reasons why an increasing number of Swedish manufacturing companies wish to expand their activities into the EC. Employers' woes have become familiar: low productivity, high unit labour costs, the shortage of skilled labour, uncertainties over the future price of energy and tough environmental control laws.

Against this background, moving operations abroad looks like a form of escape. It has certainly been helped by the liberalisation of the financial system. As a result of the lifting of exchange controls from last July Swedish property companies, banks and other financial institutions can buy property abroad for investment purposes. Skandia, Sweden's largest insurance company, for example, recently made a SEK1.2bn real estate and construction deal in London, Madrid and Lisbon.

Until now the Swedish Government has taken a benign view of the tide of overseas investment. It remains committed to freeing movement of capital, labour, goods and services as laid down in the EC's 1992 strategy. It is also determined to bring education, research and development and environmental rules closer in line with standards prevailing in the EC. Ideally Sweden's political leaders would like to see their country enjoy the economic benefits of an open Europe without paying a political price that would threaten its famous neutrality. This may prove difficult if the EC-Rha talks fail.

Sweden's big employers take a much more hard-headed view of the future. The most influential of them, Mr Peter Wallenberg, who has a family stake in a large number of the corporations that are forging ahead with EC strategies, has never disguised his belief that Sweden must become a full EC member - the sooner the better. Mr Peter Gyllenhammar, Volvo's chairman, has been more circumspect but his analysis of the EC situation is similar. He wants to see Sweden inside the EC. Indeed, a consensus has emerged in Swedish manufacturing since 1987 that the country's future lies with western Europe.

Whether motivated by fear or hope, Swedish companies have made a rapid response to the challenge of 1992 in a remarkable range of industrial sectors. Clearly, their enthusiasm for the EC amounts to more than rhetoric.

*Senior Research Fellow, Local Government Centre, University of Warwick, Coventry*

## A European Central Bank

# Time is ripe for institutional change

By James Meade

The recent dramatic events in Eastern Europe have opened up a prospect of free market national economies spreading over the whole of the Continent. The situation cries out for some institutional changes which might integrate the whole of Europe - north, south, east and west - into a single continental market economy. It is an opportunity which will not repeat itself.

The constituent members of any such grouping would be the European Community, the European Free Trade Association, and the eastern European countries as they transformed their centrally planned and controlled economies into free market economies. With this diverse group of countries the institutional bonds which might integrate their economies would have to be of a rather loose character, at least in the first instance. It would, for example, be totally unrealistic to plan now for the rapid introduction of a single currency to replace the various national currencies of all the constituent economies.

This raises an important problem. The countries of the EC already have arrangements for their single market and for other economic purposes which are much more stringent and detailed than would be feasible for many of the other European countries. Moreover, the EC countries plan to consider immediately the next stages proposed in the Delors report to bring them to a complete monetary and economic union. There are, indeed, some very powerful arguments in favour of this programme, arguments which are much strengthened by the prospect of complete German reunification. The sorry history of conflict and war between France, Germany, Italy, Spain and Britain underlines the desirability of final integration.

So the question arises whether there is any immediate institutional development which can integrate all the free market economies of Europe into an effective whole without prejudicing the simultaneous further and more rigid unification of the existing members of

the EC. It is suggested that this could be done by the institution of a European Central Bank of which all the free market countries of Europe could become members without any commitment to further economic and financial integration but without any obstacle for any group of members to form a complete monetary and economic union among themselves. Thus the proposed European Central Bank should be regarded not as an alternative to the European Central Bank System proposed in the Delors report but rather as a development of that system. In broad outline the arrangements would be as follows.

The ECB would lend and borrow funds in terms of a new European unit of account, which I will call the Europa. The central bank of each member country would be under an obligation to keep the value of its national currency in terms of the Europa at or near an agreed rate of exchange. The ECB would be set up in the first place by the payment into it of certain amounts of each member country's national currency in return for which each member central bank would hold Europa deposit liabilities of the ECB.

The basic objective of the ECB would be to control the rate of price inflation by means of its control over the monetary policies of the members' central banks. If the rate of rise of prices throughout Europe, reckoned in terms of the Europa, was rising above a planned rate, the ECB would raise its structure of interest rates. To preserve the exchange values of their national currencies in terms of the Europa, the member central banks would have to follow suit and to raise their own rates of interest in terms of their own national currencies.

The ECB would thus dominate the monetary policies of the constituent countries and could thus be made responsible for controlling the general rate of inflation or prices reckoned in terms of the Europa. Each member country would be required to set an agreed target rate of price inflation for its own economy in terms of its own national currency; and the

target rate of Europa price inflation needed to guide the monetary policy of the ECB would be set at an appropriately weighted average of these national target inflation rates.

It is clear that at least for a number of years there would necessarily be considerable differences between national target rates of inflation. In particular some of the eastern European countries might at first have to face comparatively high rates of price inflation, while the EC countries might well be bringing their inflation rates under strict control. Rate of exchange between the currencies of the high-inflation and of the low-inflation members would need to change. Such changes could be planned ahead to occur gradually in view of divergences between a member's national rate of inflation and the agreed composite rate of Europa price inflation. By this means abrupt speculative disturbances could be greatly moderated.

This general structure need in no way impede the formation of a full monetary union between the countries of the EC which planned to move in that direction. They would plan more and more uniform low rates of price inflation in terms of their national currencies, would as a result need less and less exchange rate variation between their currencies, and would eventually institute a single currency for their group of countries. Such a currency would then form one, but by far the most dominant, currency in the ECB.

It may be argued that one cannot do everything at once, and that the formation of the ECB would divert attention from the further stages of building a full monetary union for the EC countries. But need it be so? After the Second World War we dealt with many things at the same time. May not the fluid state of affairs in Europe present another occasion when we should be prepared to design a new institutional structure. Nobel prize-winning Professor Meade is drafting a blueprint for a European Central Bank which the Liberal Democrats propose to issue as a discussion paper.

## LETTERS

### The folly of closing UK's deep mines

From Mr P.E. Heathfield  
Sir, Your leader ("A blind spot on gas imports", May 5) could have compared the Government's policy on gas imports with its policy on coal imports.

Gas imports are restricted in favour of developing the smaller, marginal UK gas fields while coal imports are encouraged in order to displace UK deep mine production. Your argument is that the UK's gas fields should be tapped later, once the cost of gas has risen, because the reserves will still be there. This "import cheap gas now

and conserve UK gas for later" policy has some logic in terms of national energy security, though I must add that it makes no sense to fire off a premium fuel like gas in power stations.

But a Leader Column in your influential newspaper should point out equally the folly of closing deep mines in Britain while imported coal is cheaper. To achieve the same policy in gas the Government would have simultaneously to open the floodgates to imports and blow up half the UK's gas fields to get rid of the reserves; for closing deep mines pre-

turately destroys the remaining coal reserves.

The UK coal industry is close to becoming an endangered species partly because of the policy on gas but more now because the Department of Energy is insisting that British Coal close the 50 per cent of its remaining deep mines, which may show "negative cash flows" after financial reconstruction.

P.E. Heathfield,  
Secretary, National Union of Mineworkers,  
Holly Street, Sheffield,  
South Yorkshire

### Failings of the poll tax

From Mr William Low  
Sir, Samuel Brittan ("Blues" poll tax blues", May 3) notes that the figures released by Mr Michael Grylls MP violate Adam Smith's first maxim of taxation, which advocates proportionality between tax payment and ability to pay.

However, the work that I have done from a survey by Cheshire county council shows that use of local services rises with income and therefore the poll tax fails to meet the benefit principle of taxation, whereby people pay in proportion to benefits received from public services.

The survey shows that top earners (over £20,000) used 1.67 times as many local services than those earning between £5,000 and £10,000 (in 1986-87). Designing a fair community charge which also accounts for the benefit principle requires a more than proportionate contribution by the better off.

The services use ratio implies that the "chairman" should pay at least 1.67 times as much as the "gasmann". The ratio of relative earnings differentials to relative tax burdens in the figures cited by Samuel Brittan implies a ratio of unity. So the poll tax is also regressive and fails to act as a community charge.

William Low,  
Senior Research Fellow,  
Local Government Centre,  
University of Warwick,  
Coventry

### U-turns should not be ruled out

From Mr Tom Shackleton  
Sir, I thoroughly disagree with Mr Rory Montgomerie (Letters, May 3). Of course, there are alternatives to the current economic policy.

It would be possible, though embarrassing, for Mrs Margaret Thatcher to increase taxes. Why should high interest rates be the sole weapon against excess demand? How about replacing the community charge with a property-based tax?

What about encouraging respect for professional values and long-term investment rather than wheeler-dealing and investment speculation? Tom Shackleton,  
Gutter Chalk, Quarry Hill,  
Park, Reigate, Surrey RE2

### War Crimes Bill must be enacted

From Mr Eric Salama

Sir, Your suggestion ("Government measure at risk in Lords", May 4) that the Government might abandon the War Crimes Bill due to opposition in the House of Lords is extremely worrying - both morally and constitutionally. The moral arguments in favour of prosecuting alleged war criminals, irrespective of the time which has elapsed, have been well rehearsed and accepted in most other civilised countries. The point now, though, is that the House of Lords is seeking to make policy and that the Government, for the first time since it was elected in 1979, seems unwilling to impose its will on the unelected chamber.

The Director of Public Prosecutions, Sir Thomas Heather-

ington, has investigated the matter and has found at least three people resident in the UK against whom a case exists; and the Commons has voted overwhelmingly in favour of legislation by 348 to 128.

Why is a Government which has been willing to overturn the view of the Lords on several occasions since 1979 now seemingly unwilling to do the same in the case of the War Crimes Bill? Your report that Lord Selborne is privately resigned to losing the Bill seems not from a constitutional impulse but from a Government which feels less strongly about prosecuting war criminals than it does about abolishing the GLC.

Eric Salama,  
23 Carysfort Road,  
London N16

### Warsaw Pact's collapse means Nato must deal directly with Moscow

From Professor R.R. Nefed

Sir, The statement in your editorial ("The quest for security", May 6), that there is little point in discussing a new European security structure at the CSCE meeting later this year, unless an agreement has first been reached on reductions in conventional forces, ignores the problems of reaching an agreement in Vienna now that the Warsaw Pact has collapsed.

Since the Soviet Union has, in effect, lost its allies, negotiation to balance the numbers of weapons possessed by the two alliances have lost their validity. Comparisons now needs to be made between Nato on one side and the Soviet Union alone on the other.

This can be illustrated by the figures for tanks. The figures for main battle tanks in the area from the Atlantic to the Urals, which have been the starting point for the negotiations, are: Warsaw Pact about 50,000, Nato 22,000, giving a Warsaw Pact superiority of more than 2:1. The proposal on the table is that each side should have 20,000, with a proviso that the Soviet Union should not have more than 12,000 out of the Warsaw Pact total.

For the Soviet Union, 8,000 tanks - the quota for the rest of the Warsaw Pact - have gone west, metaphorically speaking at least; and to conclude an agreement without

changing the basis of calculation would mean accepting inferiority of 0.6:1 in place of superiority of 2:1.

It is a tall order to expect Mr Gorbachev to put that across to his military. There are two possible solutions:

• A change in the basis of calculation. This can be achieved by either a reduction in the Nato figures or an increase in the Soviet figures for the permitted numbers of tanks and other weapons.

• The abandonment of attempts to negotiate balanced reductions in arms in favour of a more relaxed approach based on making independent changes in force levels within a framework of east-west

co-operation over political aims, economic exchanges and the introduction of confidence-building measures in the military field.

The choice needs to be based on a long view of the potential threats to European security and a clear understanding of the inevitability that arms negotiators and their supporting teams, conditioned to believe balance is good and inferiority is bad, will tend to pursue superiority, and go for high levels of arms, with damaging political consequences, unless they are instructed to act otherwise.

Professor R.R. Nefed,  
Trinity College,  
Cambridge CB3

# 9 billion reasons why investment here is such a good idea.

Of the billions of dollars invested by overseas companies in Ontario, Canada over the last few years, at least 9 billion of them belonged to British companies.

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# FINANCIAL TIMES COMPANIES & MARKETS

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Thursday May 10 1990



## INSIDE

### Stora defends German purchase

Bo Berggren, president of the Swedish pulp and paper group, Stora, was at pains yesterday to defend his company's purchase two weeks ago of the West German conglomerate Feldmühle Nobel. At Stora's annual meeting in Falun, he produced a financial analysis of the DM40n (\$2.41bn) deal to squash criticism that it would reduce profits through added debts. Within five years, he said, the deal would be saving Stora between SKr800m and SKr800m annually. Page 25

### Trafalgar constrained by property slump

Interim pre-tax profits at Trafalgar House, the shipping, property and construction group which owns the QE2 and London's Ritz Hotel, were held back by a depressed UK commercial property market. However, the company still edged ahead from £114m to £117m (\$195m) before tax. Sir Nigel Brookes (above), Trafalgar's chairman, pointed out that the group was sheltered from some of the domestic economic storms as nearly half its sales were international. Page 30

### Change of tyres at pole position

Restructuring has been going on at such a pace in the world tyre industry that even the biggest surviving players are looking uneasily over their shoulders. John Griffiths starts a series of articles on the global industry by looking at Goodyear. The company is looking to become "market led" rather than "technology driven". But do IBM's dyed-in-the-wool technologists feel left out of the new order? In the last article of a series, FT writers look inside the R&D labs of the world's biggest computer maker. Page 35

### Brokers unmoved

George Walker, the pugnacious chairman of UK leisure and property group Brent Walker, said yesterday he was baffled by the reaction of brokers to his company's 1989 results. Brent Walker announced a pre-tax profit well ahead of analysts' forecasts, but failed to stimulate shares across the troubled leisure sector. Despite some initial buoyancy, reports David Chorrell, Brent Walker's shares closed down 7p on the day at 220p. Page 38

### Technology at 'market-led' IBM

In the mid-1980s, John Alcorn (left), chairman and chief executive of International Business Machines, looked at the way the company does business. In effect, the company was to become "market led" rather than "technology driven". But do IBM's dyed-in-the-wool technologists feel left out of the new order? In the last article of a series, FT writers look inside the R&D labs of the world's biggest computer maker. Page 35

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### Chief price changes yesterday

FRANKFURT (DEM)	PARIS (FFP)
Bayer-Werth	382 + 12
Henrich	373 + 13
Lafont	685 + 25
Springer	800 + 15
Pfaff	636 - 19
Humboldt Gold	214 - 10
St-Dele	710 - 40
NEW YORK (\$)	TOKYO (Yen)
Wheat	46 1/4 + 1/4
Gr. Wheat	24 + 1/4
Maize	24 + 1/4
Feed. Exports	52 1/2 - 1 1/2
Shelter's	15 1/2 - 1/2
Stone Coat	10 1/2 - 1/2
Woolworth (FW)	61 - 1/2

New York prices at 12.30.

LONDON (Pounds)	Dallas & New
Bentley	825 + 10
Fluor	338 + 7
Mersey Dockers	22 + 40
Oilfields	325 + 3
Pfaff	636 - 19
RT	587 - 19
SG	315 - 5
Stora	523 - 17
Sturitt	502 - 7
Telegraph	34 - 5

## Citicorp sees lower rating from Moody's

By Alan Friedman in New York

MR JOHN REED, chairman of Citicorp, the biggest banking group in the US, said yesterday he expects Citicorp's credit rating to be downgraded by Moody's Investor Service, the US rating agency.

Mr Reed's comments came three weeks after Moody's placed Citicorp under review for a possible downgrading. Less than two weeks ago, Standard & Poor's, the other major rating service, cited the deteriorating quality of Citicorp's real estate and leveraged buy-out loan portfolios. It lowered Citicorp's \$50bn of senior debt to AA minus from AA.

Moody's current rating of Citicorp's long-term debt is A1, which is already roughly one notch below the newly lowered AA minus level assigned by S&P. When S&P lowered Citicorp's rating in late April, Citicorp said it was disappointed, but dismissed the move as "a non-event in the market."

Yesterday Mr Reed said he couldn't complain about the rating agency's decision. "I said to the rating services that if they wanted to sign that there has been a deterioration in the quality of assets then that's true. There has been a deterioration."

Asked about the Moody's review he said: "My guess is that Moody's will downgrade us to some extent."

Sources at Citicorp have indicated that they expect the bank's

non-performing commercial real estate loans to increase by \$500m to \$600m this year. Citicorp is the largest commercial property lender in the US. At the end of the first quarter Citicorp's non-performing real estate loans totalled \$1.3bn of the bank's \$12.6bn portfolio. There will also be some real-estate write-offs.

Yesterday, Mr Reed stressed that he expects that the bank will eventually recover real estate loans that are being written off. He said he expected the real estate slump to have a short-term impact on earnings and, citing the experience of the slump in the early 1970s, described the write-offs as having "a high chance of recovery."

Mr Reed said he had toured the US last week and called on 36 real estate customers. "My guess is that prices are weak and getting weaker. The market has not plateaued yet. We're going to continue to feel the pressure of this and we expect to take more write-offs on the real estate portfolio." He stressed that he did not want to abandon real estate customers.

Citicorp's net income declined by 56 per cent in the first quarter of the current year, to \$231m. Its 1989 net profit sank to \$498m - against a 1988 net of \$1,868m - after adding \$1bn to reserves against possible loan losses in less developed countries.

## VW's first-quarter profits rise by 5.5%

By Andrew Fisher in Wolfsburg

NET PROFITS of Volkswagen, the West German car group, improved by 5.5 per cent to DM132m (\$15.2m) in the first quarter of 1990, and Mr Carl Hahn, chief executive, said yesterday that competition, especially on prices, was "getting tougher in Europe."

He declined to give a full-year profit forecast. But "VW would have to work hard this year to improve on its 1989 result," he said.

Group net profits jumped last year by 28 per cent to DM1,040m, or 10.4 per cent to DM85.4bn. Earnings per share were DM61 (DM46) and the dividend on ordinary shares is being increased by DM1 to DM11.

Mr Hahn told VW's annual press conference that the group would have to step up its production capacity in order to keep pace with growing sales opportunities in eastern Europe. Despite considerable investment plans in Spain, where it owns the SEAT carmaker, and in East Germany, VW's need for production capacity "does not yet correspond with the new dimensions," he said.

He said talks on possible co-operation with the Skoda in Czechoslovakia were continuing. Other car groups were also interested in working with Skoda, he said. "But we have made them a good offer." Talks were now at "a very delicate stage."

Details page 35

## Hochtief seen as potential buyer of Rush & Tompkins

By Andrew Taylor, Construction Correspondent

HOCHTIEF, the West German contractor, is understood to be among several overseas companies to have expressed interest in buying all or part of Rush & Tompkins, the failed UK commercial property developer and contractor.

Senior managers at Rush & Tompkins had also proposed mounting a management buy-out, the group's receivers said yesterday. They also revealed that Rush & Tompkins owed banks \$200m (\$200m) when it collapsed at the end of last month.

Mr Christopher Morris, one of three joint receivers appointed to Touche Ross, the accountancy firm, warned that a fall in property prices meant some bank lenders were likely to incur losses when developments were sold.

He said 800 of the group's 1,700 UK employees were being made redundant, including the group's

Federated Housing, the troubled UK housebuilder, is to meet its bankers today in talks which could determine the future of the group. The company's shares were suspended at 5p at the beginning of April.

Federated made pre-tax profits of £2.1m (\$3.5m) in 1988. It has warned that it made a substantial loss last year, including substantial write-downs of its land bank.

Several developers have failed so far this year, including Rush & Tompkins, Declan Kelly, Hiron Holdings and J M Jones. A number of other developers have had their shares suspended.

Managing director Mr Nigel Drimmet, and other senior executives. A sale is likely to be complicated, given the large number of joint venture developments which have been undertaken by Rush & Tompkins and on which it owes £200m.

Each night at European airports employees of the world's four leading inter-nationally sort parcels and documents destined for desks and door mats the following day.

The pace of work is intense. The competition in the industry is ferocious. There is going to be no let up.

While the disclosure that Lufthansa, the West German airline, Japanese Airlines and Nishio Iwai, the Japanese trading house, may be on the verge of taking a majority stake in DHL, the market leader in document handling, will only increase the pressure.

The deal would give DHL a significant foothold in Japan, just before the country's planned deregulation of its parcel delivery market. That could be the basis for expanding DHL's presence in the Pacific Rim, which will be an important growth market for express courier services in the 1990s, partly because of the low penetration of electronic mail and facsimile machines.

But the alliance's significance could extend well beyond that. DHL's network of 1,000 offices in 183 countries servicing 550,000 customers would be brought together with the two airlines' capacity to carry large quantities of documents, parcels and freight over trunk routes.

Competition among the airlines in the cargo business is intensifying. Air France signalled its intention with its bid to control for UTA, the French domestic carrier, which also has significant cargo operations. The deal, which is being examined by the European Commission, would probably make Air France the largest cargo handling passenger airline.

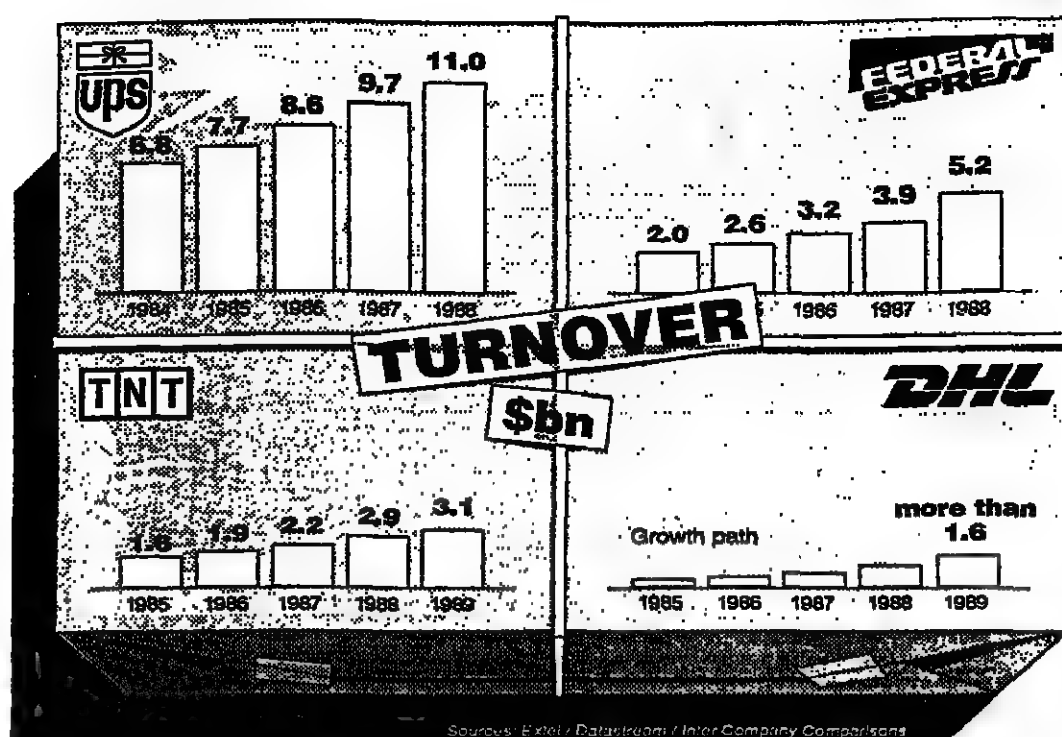
Lufthansa and JAL's talks with DHL follow the announcement last month that along with Air France and Cathay Pacific they will set up an international cargo information network to improve the brokerage of airline cargo space.

Mr Martin White, a consultant who follows the industry for accountants Deloitte Coopers said: "The airlines need to make sure they make best use of the capacity they are installing. Buying into DHL would ensure that."

Higher volumes of cargo, parcels and documents would allow the airlines to fully utilise their aircraft and maximise returns from freight operations. Aircraft might even fly double shifts, carrying passengers by day and freight by night, significantly increasing productivity.

There would be savings for both sides in aircraft procurement, maintenance and servicing. They could also share some of the costs of developing the expensive computer systems of which allocate space on aircraft and track parcels to their destination.

The tie up has considerable attractions for DHL. The dominant position it has held for 30 years in the express documents business is under attack from two sources. The other courier companies, battered by competi-



## A high-stakes game of pass the parcel

Charles Leadbeater, Robert Thomson and Rod Oram on competition among couriers

tion in the parcels end of the business, are attempting to escape by attacking DHL's market. Electronic mail and facsimile machines are eating into this market from the other side.

DHL has found it an uphill struggle to force its way into the parcels business against three competitors. By vertical integration with the airlines, which specialise in handling heavier cargo, DHL will be in a much stronger position to deal with parcels.

Mr White said: "The key in this industry is to spread heavy fixed costs in aircraft, terminals, vehicles and computer systems over high volumes. This should secure high volumes for both parties."

The prospective deal is a sign that competition is set to intensify and it could be accompanied by a restructuring of ownership. The industry has seen many acquisitions in the last couple of years. All the big four are expanding their European networks through the purchase of smaller national delivery companies. In the last 18 months UPS, which has been the slowest to develop its European operations, has bought a clutch of companies in the UK, Spain and Italy.

year of Tiger International and its Flying Tigers subsidiary, which was then the world's largest cargo airline. That acquisition, which brought a fleet of Boeing 747s and landing slots at Japanese airports, was a precursor of the sort of vertical integration envisaged by the DHL deal.

Attention may now focus on further links between airlines and courier companies. The industry is awash with rumours. Three months ago British Airways had to deny a persistent rumour that it was in talks with Federal Express. There is also speculation over what Air France may do with its growing cargo capacity. From the other side some of the courier companies may be put under growing pressure to forge links with an airline. UPS, which has strong ground delivery systems, buys its European air transport from contractors.

As the top four courier services have expanded into Europe so margins and returns have been cut. Mr White said: "Very few of them are making much money in Europe. It is unlikely any will go out of business, but some may be forced to withdraw from competition in some markets."

tion. In the UK and Europe it has diversified away from courier services into contract distribution and freight to broaden the base from which it competes.

Federal Express is still trying to come to terms with its Flying Tigers acquisition. And it has been spending heavily on developing its services abroad through acquisitions and start-ups. Coupled with the problems at Flying Tiger, the investment in globalisation has wreaked havoc on the company's profits.

Analysts estimate Federal Express's after-tax foreign losses are running at about \$150m in the fiscal year ending this month and are likely to be around \$100m next year. UPS gives no detailed financial figures but "it is probably losing as much overseas as Federal is on a much smaller revenue base," said Mr Paul Schlesinger, an analyst with Donaldson Lufkin & Jenrette in New York. Of the two companies, UPS has the deeper pockets for international expansion. Its total revenues are around \$12bn a year against Federal Express's \$7bn and its domestic US parcel business is far more lucrative. Whatever becomes of its rivals, DHL's talks with the JAL consortium are a clear signal that it, at any rate, has no intention of succumbing to competition.

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## INTERNATIONAL COMPANIES AND FINANCE

## CNCP signals start of Canada telecoms battle

By Bernard Simon in Toronto

A 140-YEAR-OLD former railway telegraph company has, with a change in name, signalled the start of a battle which is expected to reshape Canada's tightly regulated telecommunications market.

CNCP, an acronym of Canada's two venerable railway companies, said yesterday it was renaming itself United Telecommunications, and confirmed that it would soon apply to regulatory authorities for permission to compete in the public, long-distance telephone business.

United hopes to persuade the Canadian Radio-television and Telecommunications Commission (CRTC) to end the long-distance monopoly held by Telecom Canada, a consortium of 10 utilities, the biggest of which is Bell Canada.

Bell, a subsidiary of the Montreal conglomerate BCE whose other interests include equipment supplier Northern Telecom, also has a monopoly on local telephone service in most of Ontario and Quebec, the two biggest markets in the country.

United yesterday kicked off what promises to be a protracted public relations struggle with Bell by describing itself as "Canada's national telecommunications company" and saying that it is "the strongest viable alternative to the telephone companies."

United already provides national, private-line voice and data services. The CRTC turned down its application in 1986 to enter the public long-distance telephone market. It said it plans to invest C\$400m (US\$345m) in long-distance voice service.

Canadian National Railways sold its stake in CNCP in 1988 to its partner, Canadian Pacific (CP) of Montreal. CP in turn turned over a 40 per cent interest last September to Rogers Communications, Canada's biggest cable television operator.

Rogers' participation in United is part of aggressive efforts to diversify from cable TV into the broader telecommunications field.

Its foothold in the long-distance telephone market, assuming United's application succeeds, is expected to foreshadow a move into local telephone service.

Rogers is investing heavily in a fibre-optic cable network which could eventually be used to carry both cable TV and telephone signals.

Although Bell says it has no objection in principle to competition, it is likely to oppose strenuously United's licence application. Bell estimates its long-distance revenues subsidize local services to the tune of about C\$2bn a year.

Efforts to correct the imbalance by charging for local calls have met with strong consumer and political resistance.

Bell, which has an extensive fibre-optic network of its own, has hinted that it may retaliate against Rogers by moving into cable TV transmission.

It has also tried to spike United's plans by lowering long-distance charges by as much as 51 per cent in the past three years.

One analyst estimates that even if United's latest long-distance application succeeds, it will be three to four years before it starts service.

## Pathé move to extend tender offer for MGM

By Alan Friedman in New York

THE complex and unconventional \$1.2bn planned takeover of MGM/UA by Pathé Communications, the Hollywood studio controlled by Mr Giancarlo Parretti, the Italian financier, has taken another turn as Pathé announced for the second time in as many weeks its intention to extend its tender offer for MGM shares.

Last week Pathé said it was extending the closing of the offer from April 30 to May 10. On Tuesday Pathé said the tender was being extended further, until June 7. The deal between Pathé and MGM/UA, the casino mogul who controls 82 per cent of MGM/UA, provides that Pathé may complete its offer at any time on or before June 23.

Scepticism about Mr Parretti's ability to come up with the cash has been a feature of the transaction since it was first announced in early March and even after Time Warner, the media and entertainment giant, agreed to guarantee \$850m of loans for Pathé in exchange for distribution rights to the United Artists film library.

Mr Florio Fiorini, chairman of Pathé and Mr Parretti's main financial partner, insisted that obtaining the funds was a problem and claimed that the tender was being extended "mainly because of documentation delays and legal papers."

Mr Fiorini said there was "a small problem" with some of the holders of MGM/UA junk bonds who had threatened legal action because of the added debt burden arising from the Time Warner-backed loans.

He said, however, that the European network of companies he and Mr Parretti control would set up a sinking fund to acquire about \$110m of the bonds over the next six months.

Mr Fiorini said that agreement had been reached to raise net cash of around \$175m from the sale of Reata, a Spanish real estate company he and Mr Parretti control, to a consortium led by Société Générale, a publicly quoted French company.

The Reata sale would not close for several months because it was necessary to first launch a tender in Spain to buy out the remaining 25 per cent of the shares quoted on the Madrid Stock Exchange, but that bringing loans from Spanish and French banks would meanwhile provide the \$175m.

The remaining funds would come mainly from the sale of other European assets.

## Competition puts renewed pressure on tyre industry

THE WORLD tyre industry, after several years of recovery from the financial losses and severe over-capacity which marked the early 1980s, is under pressure again, writes John Griffiths.

Profit margins in the \$45bn-a-year turnover industry are being deflated once more by a renewal of intense competition, particularly in the original equipment market for new car tyres, and the onset of new over-capacity problems.

The comfortable profitability of high performance, low-profile car tyres - a key factor in the financial turnaround of the mid-1980s for those companies with the technology to develop and make them - is being rapidly eroded as more entrants crowd into the sector.

Substantial investment in new capacity - totalling more than \$60m - by most of the major players is coming on stream when original equipment and replacement tyre demand is slowing in some of the world's major markets.

Against this background, share values of most of the tyre majors have slumped. In addition, there are still lingering uncertainties about whether the restructuring of the industry is really over.

Some are shared with the entire industry. Others are the unwelcome consequences of past Goodyear policy decisions, such as diversification and the legacy of the 1986 "dawn raid" by British entrepreneur Sir James Goldsmith. The raid saddled Goodyear with a heavy \$600m in extra debt to buy back its shares.

The faltering North American domestic market is one worry, with the "big three" domestic producers on which the bulk of Goodyear's original equipment business is based cutting back sharply on output. The market for replacement tyres is also weakening.

Vehicle and tyre markets elsewhere are also coming off the boil, and this is at the very time more capacity is being launched around the world. Mr Barrett's concern is about how the industry will handle the developing supply-demand imbalance - whether there will be a repeat of the price wars of the early 1980s which plunged the industry into losses and acted as the catalyst for restructuring.

In addition, Goodyear's profitability is being sapped by its single most costly diversification - a \$1.4bn, 1,800-acre oil pipeline to Texas from which it had expected big profits from carrying Alaskan and other crude to Texas refineries.

Its post-Goldsmith efforts to sell the pipeline having been confounded by weak oil prices and the failure of the Valdez oil spill in Alaska, Goodyear is saddled with a line operating at only a third of capacity. Mr Barrett says it is likely to be 1992 at the earliest before the pipeline carrying sufficient crude to earn Goodyear a profit as

financial community. The price of so doing was the disclosure that the pipeline made a \$80m tax loss last year on sales of a mere \$11.8m. These factors have combined, says Mr Barrett, to make 1990 "a potentially difficult year."

In reaction, Goodyear is reducing manufacturing and operating expenses, improving production and distribution efficiency, and making itself better able to react more quickly to market changes. In operating terms, the tyre business, accounting for around 80 per cent of turnover, is only marginally lower than in 1988, at \$722m on sales of \$840m.

With the motor industry well on the way towards globalisation, and the big tyre makers close behind, Mr Barrett claims Goodyear is "in a better position than anyone to make that shift. The only place we're missing is Japan, where we don't have a manufacturing base."

That is being addressed, albeit cautiously, Goodyear is to set up a technical centre in Japan, as a prelude to examining manufacturing prospects there.

As for the loss of the world's number one slot, Barrett appears philosophical. "We've got back on top of the heap," he claims, provided there are no further high-profile mergers or acquisitions.

There are a lot of external factors at work, like the price of oil and environmental attitudes after Alaska, he observes.

The same factors make it likely that Goodyear will be the pipeline's owner for some time. "It's not that we don't want to sell. There are simply no buyers available."

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The same factors make it likely that Goodyear will be the pipeline's owner for some time. "It's not that we don't want to sell. There are simply no buyers available."

It has become a visible burden on Goodyear's books - the consequence of ending, last October, the practice of simply adding the expenses of the pipeline to its project value so that it did not detract from profits



## INTERNATIONAL COMPANIES AND FINANCE

## VW seeks more European capacity

By Andrew Fisher in Wolfsburg

VOLKSWAGEN, the West German car group, will need more European capacity if it is to keep up with the growing sales opportunities in eastern Europe, said Mr Carl Hahn, the chief executive, yesterday.

Despite its considerable investment plans in Spain, where it owns the Seat car-maker, and in East Germany, VW's need for production capacity "does not yet correspond with the new dimensions," he told the annual press conference.

VW's current investment programme totals about DM30bn (\$17.5bn) up to 1994, not including its share of the DM5bn hooked for the East German project to assemble its small Polo car. Last year, group capital spending totalled almost DM5bn.

VW announced a 33 per cent rise in group net profits in 1989

to DM1.04bn, with turnover up 10.4 per cent to DM65.4bn. Earnings per share were DM61 against DM46. The dividend is being increased by DM1 to DM11 on the ordinary shares.

Worldwide production was 3 per cent higher at 2.95m vehicles. Mr Hahn forecast that the 3m mark would be passed this year. In the first quarter of 1990, net profits were 5.5 per cent higher at DM191m, with turnover up 1 per cent to DM17.2bn. Mr Dieter Ullspäcker, the finance director, said the difficult economic situation in Brazil had affected the first quarter.

However, VW was benefiting from its domestic job-cutting and efficiency programme, which had saved around DM2.3bn in the last two years, with a further DM1bn saving planned for 1990.

With competition getting

tougher in Europe, VW would have to work hard this year to improve on its 1989 result, Mr Hahn said. He declined to give a forecast.

Vehicle deliveries in the first four months were 2 per cent higher at 1m units, with those of Seat up by 12 per cent to 130,000. Sales in West Germany edged up by 1 per cent, and by 5.5 per cent in the rest of Europe.

Mr Hahn said talks on possible co-operation with Skoda in Czechoslovakia were continuing. Talks were now at "a very delicate stage."

In East Germany, VW is aiming for an initial yearly output of 125,000 cars, with a rise to 250,000 by 1994. The first tranche of VW investment for the expansion at the Zwickau plant of the IFA motor group in East Germany will be DM360m.

VW is also talking to Ikarus, the Hungarian truck group, about co-operation on bus body production.

Mr Hahn stressed that these moves did not mean cutting back on plans for Seat. Capital spending at Seat would total DM10bn up to 1989, with production rising to 750,000 vehicles a year from 530,000 in 1989 and 474,000 last year.

Mr Ullspäcker said Seat's net profits jumped to DM89m in 1989 from DM13m, with those of Audi, its up-market German producer, up to DM223m from DM151m. VW's share of profits in Autolatina, its joint venture with Ford of the US in Brazil and Argentina, advanced to DM245m from DM223m. The Mexican operation moved from a DM114m loss to a profit of DM26m, while the North American company income dropped from DM117m to DM46m.

## Stora rebuts criticism of Feldmühle purchase

By John Burton in Stockholm

STORA, the Swedish pulp and paper group, said yesterday that its profits after financial items in 1989 would have increased by SKr600m to SKr4.5bn (\$750m) on a pro forma basis if its acquisition of Feldmühle Nobel had occurred at the beginning of last year.

A financial analysis of the deal, released at the Stora annual meeting in Falun, was designed to rebut criticism that the company's DM4bn (\$2.4bn) purchase of the West German conglomerate two weeks ago would adversely affect its profits due to added debts.

Mr Bo Bengtsson, Stora president, told shareholders that the synergy of the deal would save between SKr600m to SKr800m yearly within five years. He did not comment on speculation that Stora might sell part of Feldmühle's non-forestry interests to finance the purchase.

Stora based its profit calculation for 1989 on the premise that the Feldmühle acquisition was financed in equal parts through short-term borrowing and reduction in liquid funds, with the estimated cost of financing the acquisition amounting to about SKr1bn a year.

Stora argued that its sales would have jumped from SKr42.3bn to SKr74.1bn, with about SKr35bn attributable to forestry-industry products. If the Feldmühle results were included last year, operating profits would have climbed from SKr5bn to SKr6.8bn, while financial costs would have grown from SKr1.1bn to SKr2.4bn.

The deal would have had a modest effect on earnings per share, lifting them from SKr1.58 to SKr2. The visible equity/asset ratio would have dipped from 33 per cent to 31 per cent.

One of the chief effects of the deal, which will create the world's fourth largest pulp and paper group, will be to increase Stora's percentage of sales to European Community countries from 44 per cent to 62 per cent.

## Big machinery makers cut out the middle folk

After a short breathing space, the world's construction and earth-moving machinery industry has resumed the ownership restructuring which is changing the face of one of the most competitive manufacturing sectors.

Alliances and joint ventures among the largest and middle-ranking companies have been a recurring theme, but the dominant characteristic recently in this \$50bn industry has been the loss of independence from some of Europe's smaller manufacturers.

In March, VME - the Swedish-American company formed in 1985 from the construction machinery interests of Volvo and Clark Equipment - purchased Zettelmeyer, a small West German producer of wheeled loaders and bulldozers.

Komatsu of Japan, the second largest machinery maker after Caterpillar of the US, acquired a majority stake in Hanomag, a West German equipment producer.

Benati, a struggling Italian manufacturer of backhoes and wheeled and crawler loaders, was bought by Fiat-Hitachi, a three-year-old joint venture in Italy between the Italian and Japanese companies.

Earlier last year, Furukawa, a Japanese wheeled loader specialist, acquired the European manufacturing operations of Dresser of the US, including its excavator business in France.

And there have been persistent rumours that West Germany's Liebherr, a medium-sized producer of cranes, excavators and diesel engines, has been in merger talks with VME. This has been denied by both VME and Liebherr.

With the approach of the single European market, VME was desperate to find a production base in the European Community, which Zettelmeyer now gives it. The acquisition also adds wheel loaders to VME's range of dump trucks and large wheeled loaders.

VME said a further factor was its interest in selling to eastern Europe, best served from a West German base.

Komatsu purchased Hanomag partly to add to its production capacity in the EC. The Japanese company has already established a base in

the UK. But Komatsu was also worried about South Korean competition. Daewoo, South Korea's biggest machinery company, had been discussing the purchase of Hanomag with the West German manufacturer, which has an excellent manufacturing facility but has been struggling financially.

The purchase of Benati by Fiat-Hitachi was also partly a blocking mechanism, according to Mr David Phillips of Corporate Intelligence Group, a London-based industry analyst. Sumitomo of Japan, which has a joint venture with Link Belt of the US, had been on the point of acquiring Benati before Fiat-Hitachi stepped in. Fiat was determined to stop another Japanese company coming into its domestic market.

Hitachi has a joint venture in excavator manufacturing in Italy with Fiat, through which Hitachi gets access to Fiat's European distributors, and Fiat gets Hitachi's excavator designs. Hitachi has a similar deal with Deere in the US. Deere and Fiat are also planning a joint venture for backhoes in Europe.

The second question concerns the survival strategies of the middle-ranking companies - those with sales from about \$10m to \$20m. These companies include Deere, J.I. Case and Dresser in the US, VME, and slightly smaller German companies such as Orenstein & Koppel and Mannesmann Demag.

One view is that many of these companies, some with relatively full equipment ranges but restricted geographic markets, will be squeezed.

Dresser has put its North American machinery operations into a joint venture with Komatsu and their dealerships are being merged there. The industry reckons that Komatsu will dominate that venture and that Dresser will back out of the industry. The US company denies this.

Case keeps reaffirming that it will stay in the business, and VME's purchase of Zettelmeyer means that it aims to expand.

Rebuilding in East Germany will boost West Germany's middle-ranking machinery makers. However, it would appear that some of the world's middle-ranking companies could be forced together. "Many of them cannot offer total global distribution networks," says Mr Phillips. "I think there will be more mergers or joint ventures in marketing and manufacturing."

Two further issues dominate. One is whether Hitachi is going to challenge long term the dominant position of Caterpillar - which has construction machinery sales of \$8bn from total revenues of \$10bn - and the somewhat smaller Komatsu. These two companies have almost 25 per cent of the world market, according to the

corporate intelligence group. "I see three major players as a result of all this shake-out," says Mr Don Fites, Caterpillar's president, shortly to assume the chairmanship.

"Cat will be number one, Komatsu number two, and Hitachi will become number three as a result of the deals with Fiat and John Deere. Hitachi will dominate that grouping," Mr Fites is referring to a triumvirate developing between Fiat, Hitachi and Deere, a US machinery maker.

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## NEWS IN BRIEF

## Steady results at Alcatel arm

STANDARD Elektrik Lorenz (SEL), the West German electronics unit of France's Alcatel, said its 1989 group net profit was little changed at DM22.7m (\$14.5m) from 1988's DM22.3m, Beyer reports.

Alcatel is a unit of Cie Générale d'Electricité. The 1989 group turnover edged up 0.3 per cent to DM4.0bn and parent company sales rose 1.5 per cent to DM5.9bn. SEL said unchanged dividend of DM2.50.

Varta, the West German battery and plastic products group, said its parent company net profit in 1989 remained unchanged from a year earlier at DM59.6m due partly to restructuring and higher raw materials costs, AP-DJ reports. It will pay an unchanged annual dividend of DM10 a share.

Plans for a merger between Landesbank Rheinland-Pfalz and Bayerische Landesbank Girozentrale have been put on ice while Pfalz considers other options such as privatisation, Bayerische Landesbank chairman Mr Hans Peter Lins said, Beyer reports. Mr Lins said the merger would not happen this year although preparations were largely complete.

## La Générale to float unit shares

By Lucy Kellaway in Brussels

SOCIÉTÉ GÉNÉRALE de Belgique, Belgium's biggest industrial holding company, yesterday announced plans to float up to BFR6bn (\$140m) worth of shares in Aco-Union Minière, its non-ferrous metals business.

The move follows a reorganisation of these operations at the end of last year, when La Générale injected many of its scattered non-ferrous businesses into Aco-UM to form a more coherent group.

The share sale is part of the wide-reaching restructuring at La Générale following the failed takeover of the company by Italian businessman Mr

Carlo De Benedetti in 1988.

La Générale said yesterday that the sale would reduce its stake in its subsidiary from 87.5 per cent to about 75 per cent, and was designed to increase the liquidity in the stock on the Belgian market.

La Générale said the company had no fixed plans for any acquisitions, and that the money would go towards reducing short-term debt.

The share sale, which will take place between May 21 and 23, will be geared mainly at private investors.

La Générale expects to sell between 1.2m and 1.8m shares at a price of between BFR4,100

and BFR4,400. The sale, unusually large for the Belgian market, will be handled by Générale de Banque. The price will be set on May 16.

The non-ferrous metals operations are one of the most important of La Générale's sectors, and consists of a wide variety of businesses spanning a range of metals in both upstream and downstream businesses.

At the time of the metals reorganisation last December the company said its ambition was to form a major group that could rival the likes of RTT of the UK and Metallgesellschaft of West Germany.

## Belling to supply Whirlpool Int'l

By Clive Harris, Consumer Industries Editor

BELLING, the privately owned UK electric cooker manufacturer, is to make appliances for the British market for Whirlpool International, the European joint venture between Whirlpool of the US and Philips of the Netherlands.

The stand-alone electric cookers will be manufactured at Belling's factory at Enfield, north London. Neither company would specify how many Belling units would be made

for sale under the Philips Whirlpool brand. The companies have agreed not to compete directly in products.

Whirlpool will continue to make some electric cookers for the UK in Italy. The Belling deal enables it to extend its range without re-tooling for short production runs; only in the UK is there a demand for "dual-cavity" cookers, with oven and separate grill. UK sourcing will also allow Whirl-

pool International to hedge its exposure to the weak pound.

It is under pressure from its US parent, which owns 83 per cent of the company and can buy out Philips from next year, to bring margins closer to those achieved in the US. In 1989, Whirlpool made US operating profits of \$300m on sales of \$4.19bn, compared with \$102m and \$2.1bn in Europe.

Helping the Baby grow up, Page 16

## Continuing Progress by AMEV

Net profit for the year ended 31 December 1989 amounted to Dfl 354.8m, an increase of 28.5% compared with 1988. Excluding exchange rate fluctuations, the increase was 26.7%.

Total income worldwide from life assurance, non-life insurance, investment income and other activities rose by 12% to Dfl 9,425m.

Companies in the Netherlands contributed 37% of total income as against 42% from the USA, 17% from other European countries and 4% from Australia, New Zealand and Hong Kong.

A dividend for the year of Dfl 2.65 (1988: Dfl 2.55) has been recommended.

The directors are optimistic about the prospects for 1990 and, barring unforeseen circumstances and violent fluctuations in exchange rates, expect earnings per share to be higher than in 1989.

## Financial Results

(millions of guilders)

	1989	1988
Life Assurance	230.8	230.6
Non-Life Insurance	171.3	38.8
Other Activities	97.5	70.4
	499.6	339.8
Taxation	(151.5)	(66.7)
Third Party Interests	6.7	3.1
Profit	354.8	276.2

£1 = approx. Dfl 3.00

## AMEV Worldwide

AMEV is an international insurance and financial services group based in the Netherlands. Its shares are quoted on the Amsterdam Stock Exchange and AMEV share options are traded on the European Options Exchange. Total assets are now Dfl 30bn.

AMEV operates in 11 countries: Belgium, Denmark, Eire, France, the Netherlands, Spain, the United Kingdom, Australia, Hong Kong, Singapore and the USA. Its UK operations are conducted by Gresham Assurance Group and Bishopsgate Insurance Limited.

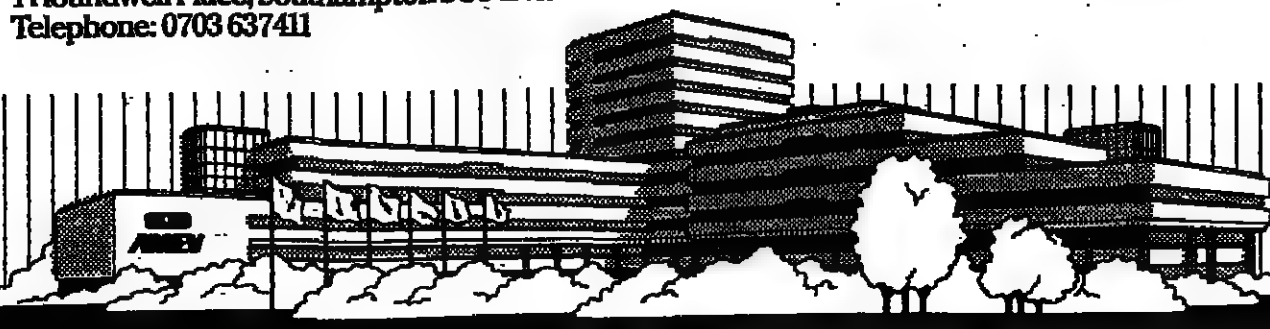
## Future Expansion

AMEV is planning in the near future to enter into a full merger with VSB Group, a leader in the Dutch savings market.

AMEV is also currently engaged in talks with AG Group, the largest insurance company in Belgium, with the aim of combining operations to form a single group. This would rank among the top 15 insurers in Europe and would play a major role in the developing European market.

N.V. AMEV, Utrecht, The Netherlands

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## INTERNATIONAL COMPANIES AND FINANCE

### Bond Media in eleventh hour battle for funding

By Kevin Brown in Sydney

BOND MEDIA, part of Mr Alan Bond's group of companies, was yesterday given until tomorrow to put together a \$300m (US\$227m) refinancing package.

A six-week deadline for completion of the refinancing expired yesterday. However, a syndicate led by National Australia Bank appeared to have decided to give Bond Media a few more days before calling in a loan facility of \$300m.

Neither National Australia Bank nor Bond Media would comment publicly on the refinancing. However, a Bond official said a final decision would be made tomorrow.

A team of Bond Media executives, led by Mr Sam Chisholm, head of the company's Channel

Nine television network, is on a trip through the US and Europe in a last-minute attempt to complete the refinancing.

Bond Media is thought to have had talks with a number of overseas television companies, including NBC in the US, ITV in the UK, and TV New Zealand, a state-owned company.

The National Australia Bank syndicate would prefer a commercial rescue of Bond Media to a fire-sale in which the company's assets - principally Channel Nine - would have to be sold in the depressed Australian television market.

However, Bond Media faces several hurdles even if the Chisholm team is able to put

together a deal. The refinancing would require approval from regulatory authorities, and that could pose problems if a foreign shareholding is envisaged.

Bond Media also faces a winding-up action brought by Mr Kerry Packer's Consolidated Press Holdings following the failure of a \$95m bid for Channel Nine by Mr Packer.

Consolidated Press claims it is entitled to redeem preference shares in Bond Media worth \$200m. Bond Media says it is not required to redeem the preference shares because it has made insufficient profits.

The case is due to start in the West Australian Supreme Court on June 1.

### Lego builds on success by lifting sales 15%

By Hilary Barnes in Copenhagen

LEGO, the Danish toy construction kit manufacturing group, consolidated its position last year as the only European among the world's 10 largest toy manufacturers, with a sales increase of 15 per cent, according to the annual report.

The group claimed a rising share of markets in Europe, the US and overseas and said the outlook for 1990 was also promising.

Initiators had been seen off, said Lego: "For the second year running sales of imitation products have fallen."

The published accounts for the group, which employs a total of 6,352 people worldwide, an increase of 473 over the year, show an increase in pre-tax profits of 24.6 per cent from DKK465m to DKK565m (\$69.2m) on sales which improved from DKK3.42m to DKK3.64m.

Parts of the group are not included in the published accounts, however, including the US subsidiary, Lego Inc, and one of the group's main factories in Switzerland.

In the US, sales increased by 16 per cent in an otherwise stagnant market as new product lines were launched. Sales by imitation products fell by 36 per cent, Lego said.

The group made substantial investments in new production capacity last year, with moulding capacity at its main Danish plant increasing by 20 per cent in the first half of 1990 and a new machine tool factory line for automation in Switzerland in October.

Equity capital increased from DKK911m to DKK1.35m. Return on equity was 27.7 per cent and on assets employed 14.8 per cent, said the report.

### SA clothing retail chain weathers the spending slowdown

By Philip Gawth in Johannesburg

A STRONG base of account customers and energetic marketing allowed Edgars, one of South Africa's largest clothing retail chains, to overcome a slowdown in consumer spending and record a 30 per cent increase in pre-tax profit to R263.1m (\$92.04m) in the year to March 31.

Turnover increased 24 per cent to R1.9bn. All of the divisions in the group, which is controlled by South African Breweries, performed creditably. Edgars, Sales House and Jet increased

sales by 26 per cent, 29 per cent and 17 per cent respectively. Clothing, footwear, household textiles and accessories are the focus of the group's activities.

The group managed to gain market share as its sales grew 9 per cent in real terms against national growth for the sector of only 2 per cent. Earnings per share for the year were 26 per cent up at 243 cents and the dividend was 34 per cent up at 98 cents. The shares are yielding 2.68 per cent against a 3.4 per cent sector average.

### Altron bruised by losses at Punch microcomputers

By Philip Gawth

ALTRON, the South African electronics and electrical products group, reported its first drop in earnings in 25 years in the year to February 28 following heavy losses at the Punch microcomputer division.

Turnover increased to R2.63bn (\$99.5m) from R2.15bn, but shareholders' earnings were down 22 per cent at R56.3bn.

Punch Line, which is part of Altron's subsidiary Fintech, suffered a R24.3m attributable loss after a R23.3m extraordinary loss from the sale of its retail and systems division and rationalisation of its distribution business.

Its difficulties reflect the troubles from which the South African information technology industry is suffering following over-rapid growth during the 1980s.

Management believes that with Punch Line's rationalisation nearly complete the information technology group will

reflect a "substantial return to profitability" in the year ahead.

Altech, the Altron subsidiary which manufactures and distributes electronic equipment, is recovering from two bad years.

The group's attributable earnings were down nearly 6 per cent to R51.8m, but it has R88m cash and is well positioned to diversify to compensate for deferred Post Office contracts.

Better news came from Altech subsidiary, Autopage, which increased earnings by 123 per cent and Powertech, the power electrical arm of Altron, which saw a 30 per cent improvement.

Altron's directors are confident of improved earnings and growth in the year ahead.

The group is maintaining the dividend at 123 cents per share despite a drop in earnings per share to 506 cents from 406 cents.

### Freeze sought on 14.9% of Bell

By Kevin Brown

AUSTRALIA'S National Companies and Securities Commission yesterday asked a Federal court in Western Australia to freeze 14.9 per cent in Bell Group, the media concern, which was bought last week by Mr Robert Maxwell, the UK newspaper publisher.

The commission asked the court for an order preventing Mr Maxwell selling on all or part of the stake until it has completed an investigation of recent share dealings in Bell.

Mr Maxwell, publisher of Mirror Group Newspapers, bought the shares from Mr David Aspinall, managing director of Bell Group, a few days after Mr Aspinall

acquired a 16.57 per cent holding in the company.

The commission claims Mr Aspinall's purchase of the shares broke Australia's takeover code because he is an associate of Mr Alan Bond's Bond Corporation Holdings. Bond Corporation owns 74.5 per cent of Bell.

Under the code, holders of more than 19.9 per cent of shares in a company may not acquire more than a further 3 per cent without launching a full bid.

Mr Rob Bathurst, QC, counsel for Mr Maxwell, said the application by the commission was "an exercise in futility."

Mr Bathurst said it was Mr Maxwell who was being target-

ted by the application, even though there was no suggestion of wrongdoing on his part.

According to Mr Graeme Cantrell, counsel for the commission, solicitors for Mr Aspinall had told the commission that Mr Aspinall acquired the shares to prevent them falling into the hands of a potentially disruptive shareholder.

Mr Cantrell said a letter to the commission from Mr Aspinall's solicitors expressed concern that the shares might have been used in a disruptive manner to endanger Bell's business, particularly the West Australian newspaper.

The hearing was adjourned until today.

### BOC subsidiary rules out dividend

By Kevin Brown

COMMONWEALTH Industrial Gases (CIG), an 87.5 per cent subsidiary of BOC Group of the UK, yesterday announced net profits down A\$60,000 to A\$22.38m (US\$16.9m) for the six months to March on sales down 8.3 per cent at A\$121.8m.

CIG said it had decided against paying an interim dividend.

The group paid an interim

dividend of 23.5 cents last year, but there was no final dividend.

"We think that overall we have been pretty fair to our shareholders," said Mr Ken Barber, company secretary.

CIG explained that the fall in net profits reflected the slowdown in the Australian economy and higher interest payments.

The sales figures reflect the disposal of the Cligweid and Beeston businesses late in the last fiscal year. CIG recently announced a A\$40m contract to build a hydrogen and oxygen plant at a steel plant in Newcastle, New South Wales, operated by BHP. Australia's largest company. However, Mr Barber said the outlook for the rest of the year was uncertain.

● 198 A/S, the Danish parent to the world-wide office-cleaning and building maintenance group, has offered to buy the 1.3m outstanding shares in ISS Inc, the US subsidiary. It means ISS Inc will come to be listed on the American Stock Exchange. Insufficient turnover in the share was given as the reason for the move.

### Wesfarmers profits fall

By Kevin Brown

WESFARMERS, the Perth-based agribusiness group, announced an 11 per cent fall in nine-month equity accounted net profits to A\$32m (US\$24.1m) on revenue up 14 per cent to A\$1.05bn. The South-

west, chemicals, gas processing and distribution group expected full-year profit to be in line with last year's record A\$58m. Wesfarmers warned higher interest rates would affect this year's earnings.

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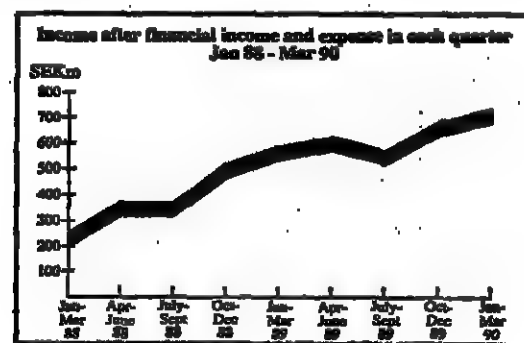
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SKF First Quarter 1990

## SKF profits continue to increase



January - March 1990		Increase	Swedish Kronor	Sterling equivalent
Income after financial income and expense		24%	741m	74m
Earnings per share		7%	3.70	36p
Sales		13%	7112m	695m

In line with the Company's declared long term strategy of continued expansion through acquisition, SKF has already made two major investments in 1990. Cofler, the Italian tool company and

Chicago Rawhide, a major US seal manufacturer, have given SKF a stronger position in each of their specialist markets.

For a copy of the 1989 Annual Report, please contact SKF Group Public Affairs  
S-415 50, Göteborg, Sweden. Tel +46 (31) 371000

Average rate of exchange for 1988: 1 GBP = 10.86 SEK; 1989: 1 GBP = 10.54 SEK; Jan - Mar 1990: 1 GBP = 10.23 SEK.

AB SKF

**SKF**











## UK COMPANY NEWS

# Currency gain helps Jefferson Smurfit to £246m

By Maggie Urry

JEFFERSON SMURFIT, the Irish-based paper and packaging group, reported a 4 per cent rise to £246.53m (£239.3m) in pre-tax profits in the year to end-January, a period when the group recapitalised the bulk of its North American operations.

Mr Dermot Smurfit, joint deputy chairman, said the results compared favourably with many North American paper groups which had seen sharp falls in profits and would do so again in the current year.

Over half Smurfit's profits come from North America. He said that without benefits of currency translation, which added about £11m (£5.6m) to profits, and acquisitions, group profits would have been down. The shares rose 15p to 645p.

Turnover of businesses owned by the group rose by 21.2 per cent to £1.96bn, but total sales managed by the group, including associate companies, were nearly £2.4bn.

Fully diluted earnings per share were 51p (47p) and the final dividend is raised by 7.5 per cent to 3.20p to give a total of 4.79 (4.32p). There was an extraordinary gain of £337.3m from the recapitalisation of the North American activities.

Mr Smurfit said this restructuring would have a significant effect on the profit and loss account in the current year, making the company look smaller.

The group had had a 78 per cent-owned subsidiary, Jefferson Smurfit Corporation (JSC), which in turn had a half share of Container Corporation of America (CCA).

The restructuring had resulted in JSC and CCA merging and Smurfit holding a 50 per cent stake in the resulting business, which had equity of \$500m and debt of \$2.6bn. This allowed Smurfit to take \$1bn in cash out of the North American businesses.

The move, completed last December, was similar to the group's original leveraged purchase of CCA in 1986 which had been a success. Mr Smurfit said "Not all debt is bad if you use it properly. And we think we have used it very well."

However, as a result, the group's trading profits in the current year will fall. But the deal meant that Smurfit had net cash of £246.53m at the year end, and instead of last year's net interest charge of £31.91m (£19.55m) there would be a sizeable interest receivable in the current year.

Mr Robert Holmes, chief financial officer said. Mr Smurfit said the restructuring would mean that the company "should be a winner at the net level" in spite of a drop in trading profits. He said earnings per share in the current year would beat the paper and packaging industry average.

The group's North American business increased trading profits by 9.2 per cent to £174.82m, which Mr Smurfit said was commendable given weak markets. He said the company would benefit from being a leading producer of newsprint made with a high proportion of recycled fibre as US states introduced minimum recycling laws.

Profits from Latin America were little changed at £55.88m as a significant decline in profits from Venezuela was offset by the company buying out the minority in the Mexican and Colombian businesses. Mexico also had a record year.

Irish profits rose by 6.5 per cent to £16.02m but UK profits fell by 36 per cent to £25.95m because of weak trading conditions. Profits from other European subsidiaries were up 74 per cent to £24.08m, helped by acquisitions. Mr Smurfit said the group planned to even up its geographical balance with more investment in Europe.

See Lex

## Heavy buying buoys Mersey Docks shares

By Andrew Hill

SHARES IN Mersey Docks and Harbour Company jumped nearly 30 per cent yesterday, from 156p to 202p.

Barclays de Zotte Wedd, the principal securities house involved in purchasing the stock, refused to comment on the identity of the buyer or buyers. "All I know is that we were paying 195p for as many shares as we could get," said one BZW broker.

BZW was said to have bid for about 1m shares, nearly 2 per cent of the equity.

Mersey Docks said it had no comment to make on the jump in the share price and no immediate intention of making a statement. At 202p the whole company is worth just over £121m.

Peel Holdings, the quoted property company which owns 10 per cent of Mersey Docks, said it was not buying or selling in the market yesterday.

Mr John Whittaker, Peel's chairman, controls the Manchester Ship Canal Company through a private vehicle, and made a tentative approach to Mersey Docks in 1987, through Peel.

He was deterred from making an offer by the high level of debt at the Liverpool company, which owns much of the city's revived docklands. But last May the Government, which owns a 20.67 per cent stake in the Liverpool company, agreed to write off £110m of repayable grants and £1.5m of loans.

There has been considerable speculation about the future of the Government's stake, acquired in 1970 after the collapse of the Mersey Docks and Harbour Board. Mr Cecil Parkinson, the Transport Secretary, told Parliament in February that it would not be appropriate to sell the shares while there was a Department of Trade and Industry inquiry going on into possible insider dealing in Mersey Docks shares. The Government had said earlier that it planned to sell the stake gradually.



Protests from Dick Brooks (left), general manager, and Chief Galashibos, of a Chipewa band of Indians, about the possibility of a mine being developed on American Indian land in northern Wisconsin, enlivened the RTZ Corporation's annual meeting in London yesterday, writes Kenneth Gooding, mining editor.

Other protests came from a man who has seen a 212-metre exploration trench dug just outside his home in County Omagh, Northern Ireland, and there were questions about health and safety at the company's Basing uranium mine in Namibia and about its Copper Pass smelter near Hull, an area where the incidence of cancer is higher than average.

All this completely overshadowed the announcement by Sir Alistair Frame, chairman, of a considerable financial coup by the world's biggest mining group.

Presentations to the two credit-rating agencies in the US, Standard and Poor's and Moody's, resulted in RTZ being

awarded the highest possible rating for its short-term debt and a "double A" rating for long-term debt by both organizations.

This will enable the group to embark immediately on a \$3bn (£1.2bn) US Commercial Paper programme. There will be an initial issue of \$1.5bn of paper - short-term promissory notes - to refinance part of the \$3.1bn debt raised for the acquisition last year of most of British Petroleum's mineral assets.

Mr TJ Lightness, deputy finance director, said that the all-in cost of those new borrowings would be below Libor (London Inter-bank Offered Rate) while at the moment RTZ was paying Libor plus 30 to 40 basis points in interest.

The Commercial Paper will be issued by two US subsidiaries and guaranteed by RTZ, which has covered its potential obligations by putting in place individually with a number of banks four-year financial facilities, extendable by another three years.

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May, 1990

## Crystalate incurs £0.9m loss

By Clare Pearson

CRYSTALATE Holdings, the electronics components concern for which TT, the industrial holding group, has made a hostile bid yesterday announced it had plunged into a \$297,000 loss in the half-year to end-March.

The result, which compared with a \$2.28m profit last time, had been expected. The shares, valued at 83p under TT's £32m offer, closed down 2p at 81p. Operating profits stood at \$1,000 (\$3,08m). There was a \$225,000 above-the-line surplus on disposal of property, but net interest payable rose sharply

to £1.8m (£788,000).

However, the interim dividend is maintained at 2.2p. The company said it was confident of an improvement in performance.

Mr JC said the benefits of its recovery strategy had yet to flow through. Short-term borrowings would be substantially reduced following the disposal of the telecommunications division, completed in March.

During the first half, Crystalate suffered low levels of demand in Europe for both resistors and thick film hybrids from the telecommuni-

cations sector. Meanwhile the downturn in the US automotive market meant demand for resistive products in the US was very low.

But, it said cost reduction programmes were underway. The manufacturing facility at Welwyn, Hertfordshire, was being restructured while some US manufacturing facilities were being relocated.

Last week Viking Interchange, a US company operating in the same field as Crystalate, intervened in TT's bid by saying it was considering making a rival offer.

NEW ISSUE

MAY 1990



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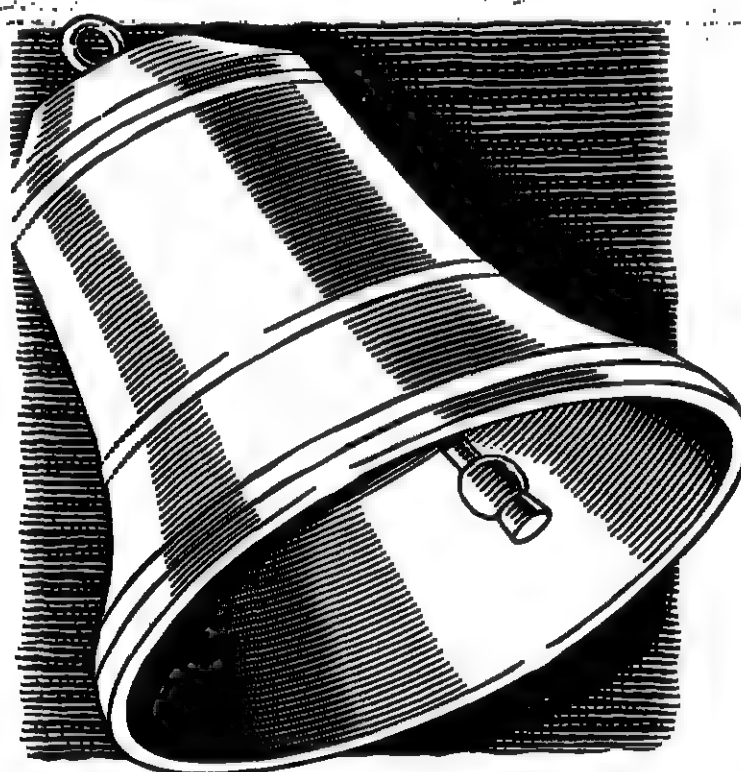
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Barisford's accumulation of a

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If you would like to receive a copy of the Group report and accounts, available from 12 June, please write to Group Librarian at AIB Bank, Bankcentre, Belmont Road, Uxbridge, Middlesex or telephone 0895 77222.



IN 1989

## FINANCIAL HIGHLIGHTS 1989

(unaudited)

	1989 £M	1988 £M	%CHANGE
Turnover	526.0	128.9	+308%
Profit before tax	82.2	41.7	+97%
Earnings per ordinary share (fully diluted)	88.7p	41.05p	+116%
Dividend per ordinary share	15p	11p	+36.4%
Shareholders funds	856.0	603.6	+41.8%



## DEWHIRST

GROUP plc

One of the UK's leading manufacturers of clothing and toiletry products.

### SUMMARY OF RESULTS

	Year ended 19th January 1990 (53 weeks)	Year ended 13th January 1989 (52 weeks)
Turnover	£m 102.45	£m 94.25
Profit before Tax	£m 5.51	£m 7.42
Profit after Tax	£m 3.65	£m 4.90
Earnings per share	3.88p	4.97p
Dividends per share	1.15p	1.07p

#### The Chairman, Anthony Vice, reports:

- Sales exceeded \$100 million for the first time, but in a highly competitive environment profits declined.
- Total dividend up 7.5% to 1.15p.
- Acquired Maydella Manufacturing Company Limited, substantially enlarging the Group's childrenswear business.
- Capital expenditure continued at a high level — to keep our Group in the forefront of innovation and development.
- Prospects are hard to assess. Group sales have shown a further increase so far in the current year.

#### The Annual General Meeting:

will be held in York on Friday, 15th June 1990. Copies of the Annual Report are available from the Company Secretary, Dewhirst Group plc, Dewhirst House, Westgate, Duffield, North Hants, RG20 7TH. Telephone: 0377 42551.

## DEWHIRST

GROUP plc

## UK COMPANY NEWS

### Dry cleaning group's shares fall 30p as market digests warning Panel seeks Sketchley explanation

By Clay Harris, Consumer Industries Editor

SKETCHLEY shares slid 30p to 206p yesterday as the stock market digested the dry cleaning and vending group's warning that its final dividend was at risk because profits had failed to match a forecast made during two recent takeover bids.

It is believed unlikely that Sketchley will report any attributable profit for the year which ended on March 30.

This reflects the impact of Sketchley's belated discovery of certain "under provisions" the costs incurred in its successful bid defences, and payments to four executive directors who have left the group or have been given notice.

Howard Govett, Sketchley's broker, said it was unable to make any meaningful estimate of the 1989-90 result.

The Takeover Panel confirmed it would be asking NIM Rothschild, Sketchley's merchant bank, to explain why a profit forecast made on March 1, and repeated a month later, had so quickly been proved wrong.

Under the Takeover Code, however, a company's directors are solely responsible for a profit forecast, whatever letters from an adviser or accountant appear in official documents.

There were strong indications from several sources

close to the company that Tuesday night's surprise announcement that pre-tax profits would fall "materially short" of the 28m forecast did not reflect the uncovering of new information.

Rather it suggested that Mr John Richardson and Mr Tony Bloom, Sketchley's new executive directors, wanted to take a more prudent view than their predecessors. A lower starting point would also magnify the recovery they hope to achieve.

Neither man was party to the original profit forecast, and both were unavailable for comment yesterday.

Of the six directors who approved the forecast, four executives have now left the company or been given notice.

The two surviving non-executives are Mr John Gillum, a retired merchant banker who is now chairman, and Mr William Shively, a retired advertising executive.

In the wake of the Guinness affair, the Takeover Panel underlined to non-executive directors that they were equally responsible for a company's conduct during a bid.

When Sketchley made the forecast, which compared with 1988-89 profits of £17.2m, Godfrey Davis Holdings, the car dealing and laundry group, withdrew its hostile offer.

Sketchley stock with the 28m



John Richardson (left) and Tony Bloom — neither was a party to the original forecast.

figure during its subsequent successful defence against a bid from Compass Group.

It noted then that the forecast did not include £1.2m of defence costs during the Godfrey Davis offer or any payments to be made to Mr Malcolm Glenn, the former chairman.

Under his service contract, Mr Glenn could receive up to £471,000, depending on the outcome of negotiations. The

three directors who were given notice on Tuesday could receive a total of £870,000. To these figures must be added the undisclosed cost of the defence against Compass.

Sketchley had already forecast an extraordinary charge of £2.5m for rationalisation costs, and its 28m above-the-line forecast included the £2.2m exceptional benefit of sale and lease-back of its Milton Keynes headquarters.

### SD-Scicon abandons talks with French software house

By Alan Cane and George Graham

TALKS BETWEEN SD-Scicon, one of the UK's largest computing services companies, and Sigeo, a leading French computer software and systems company, that could have led to extensive collaboration between the two have been abandoned, it was announced yesterday.

Officially, the companies are saying that the possible areas of collaboration do not justify a long-term strategic alliance. Unofficially, it is believed that Sigeo and Credit Lyonnais, its principal shareholder, are concerned about the fate of the 25 per cent shareholding in SD-Scicon held by British Aerospace.

BAE undertook two years ago neither to increase nor decrease its shareholding until last month. Now the deadline is past, its intentions remain unclear. The investment in SD-Scicon was made by the previous BAE management; it is understood that the present management believes there is no logic in holding a 25 per cent stake.

It is not certain, however, that BAE intends to sell its shares. Analysts believe it is considering joining with another, as yet unnamed, company to bid for the whole of SD-Scicon. From BAE's point of view, the logical partner would be a computing services company which would take SD-Scicon's commercial software operations leaving its defence activities to the aerospace company.

Mr Philip Swinstead, SD-Scicon group chairman, said yesterday that relations with BAE had become "opaque". He had told him only that he would be

consulted about any decision, that BAE could not guarantee to remain "friendly" in its negotiations over its shareholding and that a decision was likely within weeks rather than months.

Mr Swinstead said he was disappointed about the collapse of the talks with Sigeo, which could have led to a range of possibilities from cross shareholdings to a rationalisation of the two companies' activities in France. Once BAE made its move, it was possible that discussions would be started again.

Mr Gérard Bauvin, Sigeo's chairman, said yesterday that BAE's stake in SD-Scicon had been a factor in his company's thinking, but the essential point was the absence of strong enough co-operation prospects to justify a formal link between the two companies.

He said they had hoped to find more possibilities for pooling their resources, for example by sharing products or experience in specific sectors such as industrial and defence software.

The European computing services business is in a state of flux with a number of companies trying to achieve critical mass through mergers and acquisitions.

The leader is Cap Gemini-Société Générale, which has been pursuing a vigorous acquisition strategy. It holds over 20 per cent of Sigeo, the Anglo-French company, and is thought to have bid unsuccessfully for Hoskyns of the UK, put on the market by GEC and Siemens following the Messier takeover.

## Japan's leading corporate bank expects cross-border partnerships to help shape global business growth

*IBJ's recent top ranking in both overall banking service and M&A advice (in a Japan Economic Journal poll of accounting and finance managers at 1,825 publicly traded Japanese firms) is based on some obvious strengths—including its assets of close to \$300 billion. But behind that financial power is something equally essential to success in global markets. That something, according to Tadashi Natori, IBJ director and general manager of IBJ's London Branch, and Hiroshi Nakamura, IBJ director and general manager of the Investment Banking Department at the head office, is "product and relationship banking."*

In its home market, IBJ counts roughly 90 percent of Japan's 200 leading companies among its clients. Now, with offices in nine major European business centres as well, plus its operations in the United States and a number of Asian capitals, IBJ is forging new global relationships.

"With European market unification coming, in 1992, and the possibility of East-West economic cooperation in Europe," says Tadashi Natori in an interview at IBJ's London Branch, "we are going to strengthen our links to local banks and back those ties with our global strength, product innovation and skills."

IBJ's London Branch, which oversees European operations, is active in aircraft leasing, treasury products, project financing and real estate investment, but there is also strong emphasis on M&A. The M&A team at London Branch, headed by William Hurley, has been very active in identifying good opportunities in Europe for IBJ's Japanese clients as well as providing a full advisory and evaluation service.

"It has only been three years since M&A began to be recognised widely in Japan, but many Japanese companies now see it as a key part of their strategy," says Hiroshi Nakamura in Tokyo.

#### Both sides should "win"

The last two years have seen 40-50 percent growth in M&A deals involving Japanese firms. Nakamura sees slower but stable M&A market growth in the 1990s as more companies, small and large, move to position themselves in regional and global markets.

Inside IBJ, a regular series of two-day internal seminars in London, the next of which will focus on M&A, as well as regular visits by teams of head office experts keep the bank's European and home office staff in close touch with trends worldwide.

Both Natori and Nakamura are keenly aware of one particular danger in the current worldwide M&A boom.

"Some cross-border bids," Natori points out, "still can trigger powerful national emotions." IBJ-style M&A, both executives say, seeks "win-win" deals.



Tadashi Natori, IBJ Director and General Manager of IBJ London Branch

"We're not interested in 'money games,' chasing big bids and hostile takeovers," Nakamura declares. "Our goal is to help our clients build solid strategic alliances."

It's not enough just to find a promising takeover target for a client, he adds. IBJ managers study each M&A deal from many perspectives—not only to establish what is best for the companies involved, but to gauge the probable impact on the local community or country where the new venture will be operating.

The key to a "win-win" deal, Nakamura says, is to look for companies with complementary strengths and needs in production technology, marketing know-how and financing.

The work starts in the field, where IBJ teams identify companies interested in a merger or acquisition. Most of the research on a deal is done in Tokyo, where IBJ has both extensive contacts in the Japanese market and one of the most respected industrial research divisions in the banking world.

The philosophy behind the merger or acquisition, Nakamura says, is just as important as the ability to close the deal.

"Some people regard M&As as de facto 100-percent takeovers," he explains. "We don't think that way. When we look at a potential deal, the first question we ask is: 'What is best for both sides?'"

Quite often the answer is a minority equity position by one side.

#### Keeping management in place

A European company which wants to grow beyond its local market, for example, may not be able to do so without a capital infusion. Many Japanese companies, inexperienced in European markets, actually prefer to take a minority investment position first, Nakamura says, "as a way of getting to know the market."

That also achieves another IBJ goal—making sure that competent managers are kept in place, and not swept aside after a merger or takeover.

A client, Nakamura says, is like a lifelong friend. "If you look at a business relationship that way, there is only one way to think or plan—very long term."

Even though most of its M&A business thus far has involved Japanese companies, IBJ is seeking more deals like one Natori points to, a deal in which the bank is helping General Motors, Volkswagen and East Germany's automotive industry forge a new relationship.

"Our historical role since we were founded in 1902 has been to help Japanese companies grow," says Nakamura, "but with a truly global economy developing, our area of interest must be wider."

Another deal which underscored this philosophy was the joint venture which IBJ helped structure between Virgin Music Group in Britain, and the Fuji Sankei Communications Group in Japan. This alliance, which merged Virgin's recording talent with Fuji Sankei's marketing power in Japan and Asia, stands to profit both companies.

The multiple benefits of the bank's cross-border deals include another advantage—access to the Japanese market itself.

"One of our M&A goals is to help foreign companies expand their investments in Japan," says



Hiroshi Nakamura, IBJ Director and General Manager of the Investment Banking Department

Nakamura. The high price of land in Japan, cross-share holdings among Japanese companies and a general resistance to takeovers of any kind make such deals difficult, he admits, "but problems of this type are not so uncommon either in European countries. The point is that despite the difficulties, there are investment opportunities in Japan."

The leading sectors in which those opportunities exist, Nakamura says, are medical instruments, auto parts, machinery of all types and chemicals.

The advice Nakamura offers foreign firms is the same that he gives to Japanese seeking M&A deals abroad.

"A minority equity position or a 50-50 joint venture" he says, "still offers many merits, including instant access to the market through the Japanese partner's know-how and its distribution system."

Nakamura sees special M&A opportunities among family-owned companies in both Europe and Japan which were formed after World War II and which now have no family successor.

On a broader scale, there is enormous room for investment growth in the rest of Asia, still the fastest-growing economic area in

the world.

Choosing the right Japanese partner is often a puzzle made even more complex by the many intertwined relationships of the major business groupings in that country. Then there is the role of the Japanese government and its ministries, which often influence market conditions.

Here, too, IBJ thinks it has a special role to play.

Nakamura lists two key strengths which favour outside investors.

"First, we have always kept a good working relationship with the government. This keeps us very much aware of current trends and thinking there."

"Second, we have a unique position in the business world here, which allows us to offer very balanced information and analysis."

Foreign companies entering the Japanese market often encounter one or another of the major business groups which are competing with one another.

"Since we are unaffiliated, yet influential, we have many business groups as our clients," he continues, "therefore we can provide foreign companies planning to establish footholds in Japan with very balanced information related to M&A."

#### Products and relationships

Connections. Detailed information. Financing power. These are the qualities which IBJ managers are using to expand their business worldwide.

But the bottom line, as Natori and Nakamura both point out, is relationship-banking and a global point of view.

Adds Natori, "Our banking contacts, our information network and our highly skilled product banking units around the world enable us to mobilise tremendous strength and skill in creating projects which may involve a single market, or major enterprises in several countries."

IBJ's ultimate goal in striving to help build a new Europe, says Natori, is global.

"A stronger Europe," he concludes, "will provide valuable impetus to the entire world economy."

### Markheath claims to hold more than 50% of Camford

By Nikki Tait

MARKHEATH SECURITIES, the property and investment vehicle for Adelaide Steamship, the Australian conglomerate, yesterday claimed to control over 50 per cent of the shares in Camford Engineering.

Early yesterday morning, the bidder announced that it either owned or has agreed to buy about 50.08 per cent of the equity, but said that it was still seeking valid cover for some of the purchases. Assuming this is received, it intends to declare the offer wholly unconditional.

The 50.08 per cent figure did not include any acceptances which Markheath may have received, although the last declared level of backing on this score was small — 1.3 per cent — and it is always possible for accepting shareholders to sell through the market.

There was no immediate response from Camford. Its advisers said only that they were considering the new situation and would make a statement "in due course."

A day or two of jostling now seems likely as Markheath attempts to cement its position, while the defending company tries to assess whether there is any ongoing support among remaining shareholders.

### Guinness sale of Rioja holding could raise £10m

By Andrew Hill

Guinness is to sell its 51 per cent stake in the Spanish Rioja wine business Bodegas AGE, whose Sigo Saco heaviest-covered bottles grace the tables of a thousand hotels.

Bodegas is one of the world's three largest Rioja houses and sold over a million cases of the wine last year for £14.5bn (£225m).

As well as Sigo Saco the company produces Romeral and Gran Reserva. The sale of the stake could raise as much as £10m.

"Basically, Guinness has focused itself very clearly on spirits and beer — the wine interests were actually quite small," said Guinness, which sold its Californian and Australian wine operations about a year ago.

"We're interested in strong brand-names but we really aren't in the wine business any longer."

The group said it had already received a number of inquiries about Bodegas from Spanish and international companies.

### Courtwell sells Bear Brand for £726,000

By John Thornhill

Courtwell Group, the troubled leisure and clothing company which has just called in the receivers at its principal subsidiary, Leisure Investments, has sold its remaining Bear Brand Hosiery business for £726,000.

It claimed the sale eliminated a loss-making business, increased its cash resources, and would help stabilise its position.

The buyer is Glamor Group, the acquisitive clothing company headed by Mr Stephen Barker, which will meet the consideration through the issue of loan stock repayable on June 30 1991.

In addition, Glamor has agreed to acquire a 21m shareholding in the group debt of £12m and will make a further payment of £10.8m at the end of the year.

At the end of 1989, Bear Brand Hosiery had net tangible assets of £546,000. In that year it recorded a pre-tax loss of £764,000.

Glamor claimed that the addition of Bear Brand would give it a 20 per cent share of the UK hosiery market in volume terms.

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## UK COMPANY NEWS

Profits down £2m and depression will continue over short term

## Hong Kong side pulls back Time Products

By Vanessa Houlder

TIME PRODUCTS, the watch distribution and manufacturing group, yesterday announced a fall in pre-tax profits from £17.25m to £15.12m for the year to January 31.

Turnover increased from £82.01m to £88.18m.

The decline was the result of a sharp drop in operating profits from £15.52m to £13.5m from the Hong Kong operations as Japanese producers, the major suppliers of watch movements to Hong Kong, increased production and reduced prices.

The company said the Japanese competitive position was protected by the weakening of the yen and there was little indication that prices would rise.

Mr Marcus Margulies, managing director, said he had long-term confidence in the business but profitability would remain depressed in the short term.

UK operating profit increased from £9.19m to £9.97m. "In the UK our results were particularly encouraging in terms of the retail trade being affected by the decline in consumer spending," said Mr Margulies.

Sekonda increased its market share and had a satisfactory year, given the economic climate. Longines had an "excellent" year, increasing sales by over 25 per cent.

However, Stubs, the new watch brand priced between £35 and £55, failed to achieve the targeted number of outlets. "It was a lousy time to launch a new watch brand," says Mr Margulies.

Finance income increased from £2.14m to £2.2m. At the year end there was cash of £27m. The company said it was continuing to look at propositions to reinvest the money. Earnings per share fell from

24.04p to 20.57p. The final dividend is raised to 4.5p making a total of 7p (8.5p) for the year.

Since the year end the company had gained the distribution agency for Certina watches in the UK. Time said that Certina was an internationally recognised Swiss brand, priced below Longines and produced by the same group, Société Suisse de Microélectronique et d'Horlogerie.

The company had also gained the distribution agencies for Girard Perregaux in the UK and North America and signed a joint venture deal with the Soviet Union. It has also nearly completed a new factory in France.

## COMMENT

With a rock solid balance sheet and a portfolio chock full of premium brands, some aspects

of Time Products are as glamorous as its most sophisticated watches. Not so its share rating, which is languishing on a large discount to the market. Over the past year, the shares have dropped by a third of their value as the company's parlous position in Hong Kong has been taken on board. There is little relief in sight from Japanese price cutting and the business will do well to make a profit this year. That will put pressure on the UK operation which is continuing to grapple with strained consumer spending. The newly launched mid-market range has taken most of the battering, even if there is no shortage of customers willing to pay several hundred thousand pounds for a jewel encrusted watch. It is not clear whether the company will be able to improve on last year's profits, which puts the shares up 2p to 159p, on a p/e of 7.5.



Marcus Margulies - long term confidence in the business

## EC passes British Steel acquisition

By Lucy Kellaway in Brussels

THE EUROPEAN Commission has given its blessing to the recent acquisition of C Walker, the steel stockholder, by British Steel.

It said that the deal, which brought together the biggest stockholder in the UK with the biggest producer, did not infringe the EC's competition rules, although it said it would keep an eye on the prices being charged to make sure that competition remained fair.

British Steel would be required to report to the Commission every year the prices it charged to its own stockholders together with the prices charged to third parties. The combined company would have a 37 per cent share of the UK market for Community steel products, 6 per cent of the European market and 50 per cent of the Irish market.

The Commission decided that in spite of the power of the new company, competition would be ensured by the 400 independent stockholders in the UK. Nearly all of the British Steel/Walker depots will have at least 5 competing local depots selling the same product.

The Commission also pointed out that the deal would give British Steel a share of the market that was not out of line with the stockholding shares enjoyed by its European counterparts.

## IFICO disposal

IFICO is to dispose of Farr Insurance Management (Life and Pensions) to a newly formed company, JBW Associates, for £534,591 cash. The disposal is conditional on the approval of IFICO shareholders.

## Maxwell purchase

Maxwell Communications has acquired Thomson, a publishing house based in Mainz, US, through the GR Hall division of Macmillan for \$5.2m (£3.1m).

## Dutch purchase helps Hi-Tec to meet £6.4m forecast

By Clare Pearson

HI-TEC SPORTS, the sports shoes and clothing company, yesterday announced pre-tax profits of £5.4m for the year ended February 4 1990, a £810,000 drop compared with the previous year.

This is in line with a forecast made two months ago when the company highlighted the way in which development of its overseas business was helping to offset the difficult trading conditions in the UK.

Pre-tax profits in the second half were slightly ahead of those achieved in the comparable period last time, when they stood at £2.9m. This followed on after the £1m fall in first half profits to £3.1m.

Overseas contribution was helped during the latter six months by the acquisition of Cofex, a Dutch leisure clothing concern, for which an initial £243,000 was paid in August.

Earnings per share dropped from 13.8p to 11.5p, but the final dividend is maintained at 3p for an unchanged total of 4.5p. Cost this time is £15.7m, up from £408,000 previously after Mr Frank van Wezel, chairman, waived his entitlement to £1.14m.

Yesterday, Mr van Wezel said: "Hi-Tec Sports has become a much more broadly-based - and hence stronger - business, both in terms of sales and profits, and in this way its performance has shown considerable resilience against the difficult market background of last year."

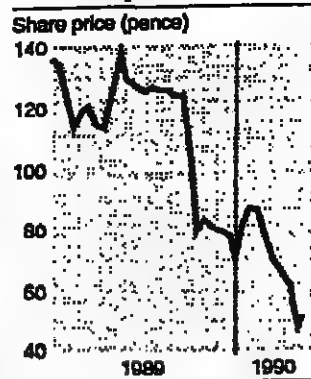
Trading in the opening months of this year was "satisfactory" but "at this stage only a cautious view can be taken on full year prospects."

First half results would reflect that Cofex profits tended to be concentrated in the second half and, accordingly, a result similar to the opening six months of last year seemed likely.

Group turnover was £83.66m (£85.53m). Within this, there was a marked increase in sales of sports shoes, the core business, outside the UK.

Sales of shoes in both North America and Europe more than doubled to £14.2m and £8.6m respectively. Home sales continued to grow but fell to less than 55 per cent of group sales.

## Hi-Tec Sports



A combination of organic growth and the inclusion of Cofex lifted sales of sportswear, casualwear and accessories - the newer side of the business - to £11.7m.

Operating profits were £7.89m (£7.83m). Interest payable rose to £1.49m (£1.33m).

## COMMENT

Ten out of eleven Crystal Palace players will be sporting Hi-Tec football boots at the Cup Final on Saturday. This is just one of the messages the company, which has recently appointed a new finance director, new merchant bank and new stockbroker, is keen to tell the City these days. The heart of the story is that, using its strong position in UK shoes as a base, Hi-Tec has successfully diversified both in product range and geography. This gives it strengths for the future not apparent when one looks purely at its dull profits and share price history since it joined the market at 180p per share in June 1988. But the question is: will anyone listen? A small company, where the chairman holds most of the shares, in an out-of-fashion industry, Hi-Tec is hardly likely to get the market right.

Analysts are looking for at least a modest recovery to about £8.7m pre-tax this year: putting the shares, yielding more than 10 per cent at yesterday's price of 59p, on a prospective p/e of 4. Undoubtedly cheap, but likely to remain so for the moment.

## Cakebread Robey cut to £74,000

A SECOND-HALF loss of £333,000 has cut into Cakebread Robey and left it with a profit of only £74,000 for 1989.

The final dividend is reduced from 8.5p to 1.5p.

The company distributes building materials, operates as timber merchants and makes architectural and sheet metal work.

The total dividend is 2.7p; it compares with 4.1p in 1988 which was paid from a pre-tax profit of £946,000.

After a tax credit of £255,000 (charge £321,000) the net profit came to £329,000 (£525,000) for earnings of 5.5p (10.4p).

## Mezzanine Capital improves to £2.24m

Revenue after tax of the Mezzanine Capital & Income Trust 2001 rose from £1.81m to £2.24m for the year to end-March.

Earnings amounted to 14.9p (12.06p) per £1 income share and a final dividend of 7.5p makes a 14.5p total.

## Titon declines 9% to £706,000

Profits of Titon Holdings, a USM-quoted producer of window fittings and accessories, fell by 8.8 per cent to £706,000 pre-tax for the six months to end-March. Turnover improved by 9.3 per cent to £4.83m.

Earnings worked through at 4.32p (4.69p) and the interim dividend is lifted from 0.94p to 1.09p.

## Cahill May to join USM

Cahill May Roberts Group, a pharmaceutical company, is joining the Unilever Securities Market in Dublin and London in a £23.3m (£2.3m) placement.

AIB Corporate Finance is placing 5m new shares at 58p per share, representing 22.8 per cent of the share capital. The broker is Goodbody Stockbrokers and first dealings will be on May 14.

## Record order books at Charles Baynes

Charles Baynes, the Surrey-based specialist engineer, has made a strong start to the current year.

Speaking to shareholders at Tuesday's annual meeting, Mr Bruce McInnes, chairman, said: "We started 1990 with order books at record levels and the performance for the first quarter has been very good and ahead of last year."

The group has sold its remaining surplus properties at a small profit. "Our financial position remains very strong with over 28m of cash on deposit," he added.

Baynes also announced the acquisition, for a nominal £1, of JS China, a low-making chemical engineering company. Assets are valued at £210,000.

## Colorgraphic sees growth in market

Colorgraphic, the USM-quoted printer and producer of literature for the direct response market, expects its market to continue to grow in 1990, the annual meeting was told yesterday.

## R&amp;V back to profit in second half

R&V Information Systems, the Dutch computer systems house which in March 1989 became the first Dutch company to obtain a quotation on the USM, has followed up its interim fall in profits with a pre-tax profit of only £143,000 (£13,850m) for the year to December 31 compared with £1.19m.

Turnover for the year was slightly lower at £113.35m (£114.04m). Earnings per share were 0.8c (20.3c) and the final dividend is passed leaving the total for the year at 1.1c compared with 2.5c.

The company is not expected to be in profit until the second half of 1990.

## W Canning set for satisfactory year

Mr David Probert, chairman of W Canning, told the annual meeting that group sales were currently running in excess of £180m a year.

He warned, however, that continuing high interest rates were causing some uncertainty among the group's UK customers and that UK sales volumes were running some 5 per cent lower than the corresponding period of the previous year.

The group has interests in speciality chemicals, industrial distribution and precious metal recovery.

Some 70 per cent of its profits arise from outside the UK and although Canning was experiencing some weaknesses in demand in Spain, this was being partially offset by strong performances by businesses in France, West Germany and Italy.

Overall, and in spite of difficulties, Mr Probert believed that the financial outcome for the current year would be satisfactory.

New issue May 10, 1990

All of these bonds having been placed, this announcement appears for purposes of record only.

## INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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U.S. \$300,000,000

The Ministry of Finance of  
The Kingdom of Thailand  
Floating Rate Notes due 2005

Notice is hereby given in accordance with Condition 4(c) of the Terms and Conditions of the Notes, that all outstanding Notes will be redeemed at their principal amount on June 20, 1990 when interest on the Notes will cease to accrue. Payment of Principal together with payment of interest in respect of Coupon No. 9 will be made in accordance with Condition 5 of the Terms and Conditions of the Notes, at the offices of any of the Paying Agents who continue to be listed in the Terms and Conditions of the Notes.

By: The Chase Manhattan Bank, N.A.  
London, Fiscal Agent  
May 10, 1990



## BAHAMAS

The Financial Times proposes to publish a Survey on the above on

10 July 1990

For a full editorial synopsis and advertisement details, please contact:

Nigel Rickard

on 071-873 3447

or write to him at:

Number One, Southwark Bridge

London SE1 9HL

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Mr David Malcolm

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Mr Tadashi Natori

Director &amp; General Manager

The Industrial Bank of Japan Limited



## KONINKLIJKE NEDERLANDSCHE HOOGOVS EN STAALFABRIEKEN NV, IJMUIDEN, THE NETHERLANDS

### Dividend for the year 1989

At the Annual General Meeting held on 8 May 1990, a dividend of NLG 5.75 per share of NLG 20,- has been declared payable, at the option of the shareholders, wholly in cash or in shares and cash, as from 21 May 1990.

Shareholders opting for cash will be entitled to cash payment of NLG 2.80 and NLG 2.95 per share against coupons No. 71 and No. 72, respectively.

Shareholders opting for cash and the shares will be entitled to cash payment of NLG 2.80 against coupon No. 71, and a share premium bonus of one share of NLG 20,- for every 25 coupons No. 72.

Coupons No. 71 and No. 72 are payable at the following offices:

Algemene Bank Nederland NV,  
Amsterdam-Rotterdam Bank NV,  
at Amsterdam.

New share certificates may be distributed in the form of CF- or as K-certificates with coupons No. 73 tot No. 115 and talon attached.

Coupons No. 72 not exercised by 1 July 1990, will be payable only in cash at NLG 2.95.

U.K. residents who are liable to U.K. taxes on dividends paid to them and who do not carry on a trade or business in The Netherlands through a permanent establishment situated therein, may have Netherlands dividend tax reduced from 25 pct. to 15 pct. if the coupons are accompanied by a completed form 92VK, which may be obtained at the above mentioned office.

8 May, 1990.

IJmuiden,  
The Managing Board.

Amsterdam,  
NV Administratiekantoor voor  
Aandeelen Koninklijke Nederlandsche  
Hoogovens en Staalfabrieken NV.

## Hoogovens Groep

## KONINKLIJKE NEDERLANDSCHE HOOGOVS EN STAALFABRIEKEN NV, IJMUIDEN, THE NETHERLANDS

### Change of shares.

After removal of the coupons No. 71 and No. 72, the share certificates in circulation (K-certificates), consists of only a mantle and a talon.

From 21 May 1990 they can be presented for change at the offices of

Algemene Bank Nederland NV,  
Amsterdam-Rotterdam Bank NV,  
at Amsterdam.

Change in new share certificates, will be, without costs until 31 August 1990, in new share certificates with coupon No. 73 up to and including No. 115 and talon, without number concurrence.

8th May, 1990.

IJmuiden,  
The Managing Board.

Amsterdam,  
NV Administratiekantoor voor  
Aandeelen Koninklijke Nederlandsche  
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## Hoogovens Groep

## The Badgerline Group has acquired Eastern National Limited



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## UK COMPANY NEWS

# Waking up to a Midsummer nightmare

John Thornhill looks at the closing stages of European Leisure's bid for its rival

"MORE THAN any other time of the year, midsummer is when most people's thoughts turn, on long warm evenings, to pubs and pints of real ale."

So Mr Nicholas Winterton, Conservative MP and the chairman of CAMRA (Real Ale) Investments, explained the success of his regional pubs group and its name change to Midsummer Inns in 1988.

But Midsummer Inns, since taken over and renamed Midsummer Leisure, no longer talks in such dreamy language as it faces what amounts to a company nightmare: a bid from another leisure company, European Leisure, which, it believes, substantially undervalues Midsummer's expanded range of pubs, clubs and discos.

This offer heads towards its final close tomorrow, and most observers expect the outcome to be close.

At the previous closing date, European Leisure spoke for 34.33 per cent of Midsummer's shares, including, somewhat embarrassingly, a 15.1 per cent stake held by Midsummer's directors, which was irrevocably pledged in acceptance when the bid was launched in early April.

At that time all appeared rosy and Midsummer recommended the offer. The bid valued Midsummer at £92m or 175p per share and the directors of both companies

toured the institutions selling them the merits of the deal.

Midsummer's interests were to be merged with those of European's, which included the Camden Palace and the Hippodrome in London, creating a forceful presence in the UK leisure scene.

As Mr Michael Ward, European Leisure's flamboyant chairman, enthused: "The enlarged group will redirect Midsummer Leisure's business along more focused lines and concentrate both companies' considerable management resources on high value-added discotheques and themed leisure venues, providing significant opportunities for profit enhancement."

But all this was before Mecca, the UK's largest leisure company, shocked the market with its debt level sparking a downward re-rating in the whole of the sector and a change in industry sentiment.

As leisure companies' shares slithered so did the value of European Leisure's offer and with it Midsummer's enthusiasm for the deal.

This decline in price led to a change of heart from the Midsummer board and in mid-April, just a fortnight after the launch of the offer, the company changed its recommendation and urged shareholders to reject the

bid.

The offer currently values Midsummer at around 138p per share or £78m in all.

Mr Paul Reese, Midsummer's deputy chairman, stated his continued objections to the deal yesterday.

"The key to the problem is

deal.

He claims the bid generously values Midsummer at 14.7 times its historic earnings after property profits have been stripped out and a full notional tax charge has been applied.

European has also turned its fire on Midsummer's man-

agement and has questioned its future viability in the absence of the offer, pointing to the company's high level of gearing and "incoherent" strategy.

In the latest of a string of increasingly aggressive circulars to Midsummer's shareholders, Mr Ward thundered: "What credibility and confidence can be attached to a company that fails to answer central questions about its

independent future in the course of a takeover bid?"

But Midsummer has firmly rebuffed these criticisms, claiming it has a fundamentally sound strategy and prospects. The company has also contested European's interpretation of the value of its offer.

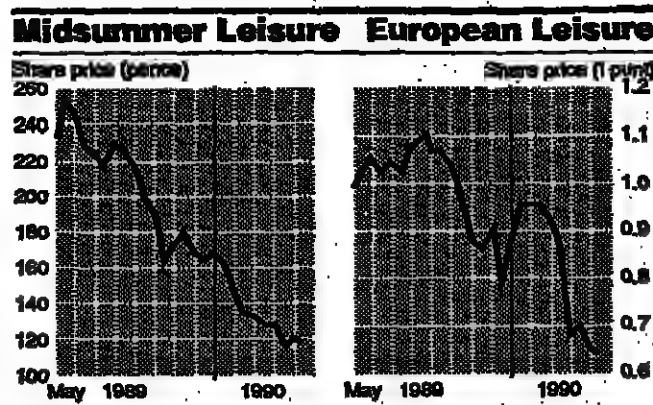
It claims the offer only values it at 8.8 times historic earnings and that its low tax charge and property profits are not exceptional features in its results.

Whatever the commercial merits of the deal, it is financial considerations that are likely to be the final arbiter of Midsummer's fate. And, if the views of most analysts are anything to go by, the offer does not seem to be high enough.

Mr Martin Hawkins, a drinks analyst at the brokers Kinst & Aitken, expresses the views of several when he says:

"The merger as originally proposed was a reasonable one in terms of industry rationalisation. "I think the market should have applauded the deal as there was no new debt, effectively no new paper, and a very significant earnings enhancement. But I now think it's a very poor deal for Midsummer shareholders."

However, he adds: "If you are a European Leisure shareholder you should keep your fingers crossed."



that the offer is inadequate because of the dramatic fall in the value of European Leisure's share price.

"Had Michael Ward increased his offer or put in a fully underwritten cash alternative then clearly that would have addressed the issue," he said. "But Mr Ward has not raised the offer and has continued to argue forcefully for the merits of the original

interim dividend at 3.75p although the full-year payment would be subject to review."

Mr Richard Mansell Jones, chairman, said that in spite of a number of adverse factors he expected Bibby to "show progress for the year as a whole."

The company was likely to benefit from the stabilisation of wood pulp prices, acquisitions and tighter controls over working capital and manufacturing efficiencies.

Holding it back would be the state of the UK economy and difficult markets in the

US.

Loss-making in the second half of last year, paper and converted products provided a trading surplus of £1.53m (£1.42m). This was achieved after rationalisation of manufacturing at one of the mills and various organisational changes. Since the period-end, Bibby has expanded this division with the purchase of Euroclima, a Belgian company.

The biggest advances in trading profits, from £5.38m to £6.75m, came in science products. This was largely attributable to the international operations of a division involved in electro optics.

The two bigger divisions achieved moderate advances in trading profits. In the agricultural division, these edged ahead to £4.79m (£4.34m). Both cattle feed volumes and margins improved despite the occurrence of another mild winter.

Materials handling, helped by a full six months trading from a US acquisition, was 6 per cent higher at £8.4m (£6m). Lamson, a company based in the UK and Netherlands, has been added to the division since the period-end.

## Bibby advances to £16.8m at halfway

By Claire Pearson

A TURNROUND in the paper and converted products division and a strong performance from science products, which came in spite of uncertain US trading conditions, helped J Bibby & Sons, the industrial and agricultural group, achieve a 5.7 per cent rise in pre-tax profits from £15.9m to £16.8m in the six months to March 31.

Turnover was £386.16m (£372.05m). Earnings per share were 9.50p (8.07p).

The company, which is majority-owned by Barlow Rand of South Africa, said it had decided to maintain the

interim dividend at 3.75p although the full-year payment would be subject to review.

Mr Richard Mansell Jones, chairman, said that in spite of a number of adverse factors he expected Bibby to "show progress for the year as a whole."

The company was likely to benefit from the stabilisation of wood pulp prices, acquisitions and tighter controls over working capital and manufacturing efficiencies.

Holding it back would be the state of the UK economy and difficult markets in the

### COMPANY NEWS IN BRIEF

ADWEST GROUP has sold Hewlett-Packard for £1.7m cash. Buyer is English Plastic Holdings, a newly formed plastics processing consortium.

KIN GROUP has acquired the share and loan capital of the Davall Group of Hatfield, Herts, comprising Davall Moulded Gear, Davall Gear, Davall Stock Gears and Davall Holland (Amsterdam, Holland) for £4.2m cash.

KKEXOTEX CLOTHES, following its offer Premierlag now speaks for 2.9m shares (94.64 per cent). Offer extended until May 22.

HAMBROS INVESTMENT Trust, now an investment holding company after being taken over by Hambros Bank, produced earnings of 10.49p (2.61p) for the half year ended September 30 1989. Total revenue £7.5m (£3.42m). Dividend 10.20p paid in September; dividends will continue to be paid on preference stocks. Net asset value 42.30p (32.44p) at March 31 1989.

HOGG ROBINSON: IRP Securities, the investment vehicle for New Zealand financier Sir Ron Brimley, has lifted its stake in the large UK-based insurance broker. It purchased a further 350,000 shares, taking its total holding to 11.14m shares (18.14 per cent).

INTEREUROPE TECHNOLOGY has bought 100,000 of its own shares at 110p each.

KALON GROUP has acquired certain businesses of Nitro-

more for an undisclosed sum. LADROCK GROUP's US plastics subsidiary has entered into a joint venture agreement through which it has purchased 50 per cent of Canterbury Downs race track in Minnesota for US\$12.65m (£7.98m). Ladbrock Racing will have an initial 50-year agreement to manage the operation.

LAWRENCE (WALTER): Colguy Holdings has acquired 1.74m ordinary shares, raising its holding to 8.69m shares (18.22 per cent).

MACAETHY is paying a maximum £2.5m for Bryans Chemicals, which runs six pharmacies on Jersey. Of the consideration, £2.25m has been paid. Bryans sales in the year ended March 31 1990 were £2.7m and pre-tax profit £125,000.

MARYLEBONE ESTATES said the rent review at Dorset House had been agreed at £2.25m per annum. A Scandinavian consortium has an option to buy the property. Marylebone said that the rent review would reflect a purchase price, in December 1990, of about £21m, subject to the option being exercised.

MERCURIUS, the Swedish investment company, has lifted its holding in the Essex-based Phoenix Timber Group from 27.2 per cent to 28.3 per cent. Mercurius has been stake building gradually in Phoenix since six months ago with 7.7 per cent.

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Listing particulars relating to the stock will be available in the statistical services of Euel Financial Limited. Copies of the listing particulars may be obtained during normal business hours on any weekday up to and including Friday 11th May, 1990 from the Company Announcements Office, The Stock Exchange, 46-50 Finsbury Square, London EC2A 1DD (for collection only) and up to and including Friday 25th May, 1990 from

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10th May, 1990

New Issue

This announcement appears as a matter of record only.

April, 1990

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Pursuant to the provisions of the  
Purchase Fund, notice is hereby  
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Amount outstanding: UA 16,621,000  
Lombard, May 10, 1990  
The Fiscal Agent  
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S.A. Luxembourg

Weekly net asset  
value  
Lombard Capital Holdings N.V.  
as at 9.5 was US\$ 336.63  
Listed on the Amsterdam  
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Information:  
Pietron, Hidding & Pierson NV



## TECHNOLOGY

Concluding a series on IBM, FT writers examine how a market-led philosophy will affect innovation

## A strategic game of determined leapfrog

Reality overtakes prediction with awesome speed in high technology. In February this year, John Armstrong, International Business Machines' newly appointed chief scientist, was discussing the physical limits to the miniaturisation of electronic components.

The laws of physics, he said, placed few constraints on what could be achieved in semiconductor technology over the next 10 years, although he demonstrated the scientist's habitual caution in outlining his predictions. "This idea is so colourful I hesitate to use it, but within eight or nine years we will be building our semiconductor devices atom by atom," he claimed.

His caution was unnecessary. Within two months, researchers at IBM's Almaden Research Centre in San Jose, California, announced that they had made a breakthrough in just such a micro-manipulated manufacturing technique, tracing out the letters "IBM" in individual silicon atoms on a nickel plate.

It is the important first step towards the production of semiconductors at least 1,000 times more complex than those available today.

The Almaden advance is an example of IBM's research skills at their best, skills which have given the world, among other developments, the "Winchester" hard disk drive and high temperature superconductivity.

But are such advances the exception rather than the rule? IBM spent \$6.8bn (4.5bn) on research, development and engineering in 1989, about 10 per cent of its revenue and more

always rejected criticisms of its technological competence as unfair. At least it did until the review of the company's policies and products initiated by John Akers, chairman and chief executive, in the mid-1980s, which has led to the greatest shake-up in the way IBM does business since it was founded. In effect, the company is now trying to become "market led" rather than "technology driven".

The mid-1980s reviews led to a realisation of how out of touch some of IBM's offerings were with the marketplace. The company's inability to connect easily its various product families together, for example, resulted in a loss of market share to Digital Equipment Corporation (DEC), the world's second largest computer company.

Does the new, market-led philosophy mean that technology and the need to stay on terms with the competition have become less important? Do IBM's dyed-in-the-wool technologists feel left out of the new order?

No, according to Jack Kuebler, IBM president and a technologist by background. "Mr Akers believes that IBM must drive like it never has before down the track of becoming market-driven and he articulates all the reasons why. I think everyone buys that now and I do not think there is a negative feeling about it."

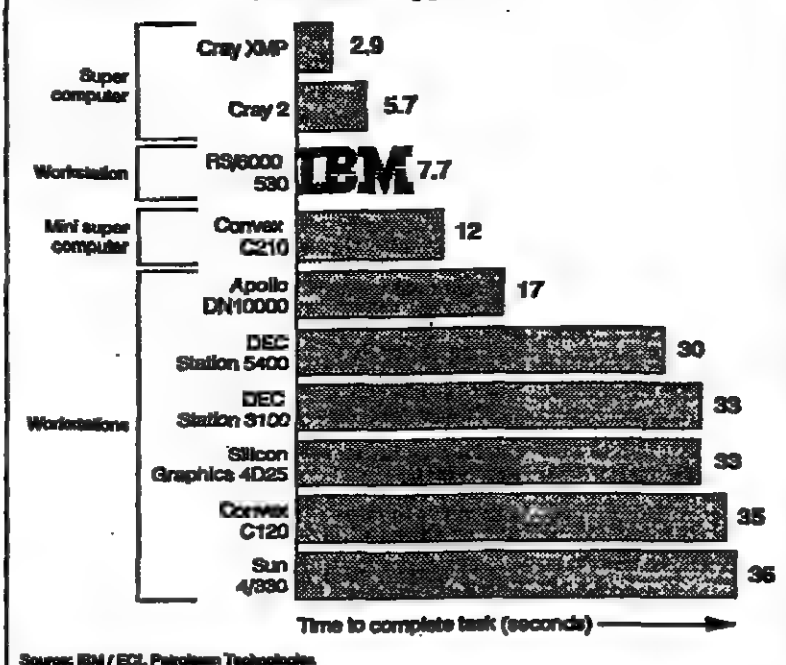
But there has been a technological shake-up as well, which goes a long way in explaining IBM's euphoria over the workstation family, the RS/6000. To IBM's senior executives, the RS/6000 is the first hard evidence that IBM is back on track as an innovator, exploiting the latest technologies, and measurably ahead of the opposition.

It also indicates that the company is taking seriously its commitment to a number of areas that, in its period of soul-searching prior to 1986, it identified as principal areas of opportunity. These are scientific computing, professional services, fault tolerant computing, artificial intelligence, image-based systems and small- and medium-sized computer users.

Its approach to scientific computing, an important and fast growing market sector in which IBM has traditionally been weak, indicates how it is tackling these areas of opportunity. Scientific, numerical-intensive computing typically involves two kinds of systems:

● Supercomputers. These are tuned

Performance of an oilfield application



Source: IBM / ECL Petroleum Technologies

for absolute speed and designed to make light work of heavy number crunching problems. The market leaders in supercomputers are Cray Research of the US and Fujitsu, NEC and Hitachi of Japan.

IBM has never made significant breakthroughs in supercomputers, although it claims that its mainframe computers fit with a "vector facility" for high speed computation and provide the power most customers need for supercomputing.

It is, however, also funding a venture headed by Steve Chen, formerly a Cray researcher, which is developing a supercomputer to compete directly with Cray and the Japanese manufacturers. The machine is on schedule, IBM says, and the software it will use is already being tested.

● Workstations. These are high performance personal computers used by scientists and engineers to tackle complex calculations and simulations. The leaders in workstations are DEC, Sun Microsystems and Hewlett-Packard of the US. Because of their power, workstations are increasingly finding a role in the commercial world - as

low cost replacements for minicomputers or as personal computers for dealers in securities houses.

The RS/6000 workstation is a landmark for IBM because it:

● Employs a reduced instruction set computing technology, a way of designing high speed microcircuits which IBM invented but allowed others to exploit to exploit first.

● Uses IBM's own version of the Unix operating system which is steadily becoming the industry standard for small- and medium-sized computers. It is therefore evidence of IBM's commitment to "open" systems.

The nine proprietary microprocessors at the heart of IBM's RS/6000 workstations and servers form a "superfamily" system with performance double that of the risc chips upon which competing workstations from companies such as Sun and Dec are based.

Independent tests of the performance of the IBM RS/6000 demonstrate that it is a leap beyond current workstation products from competing suppliers. The Spec organisation, an independent testing group, measured

IBM's top RS/6000 model at 34.7m instructions per second (mips), a common measure of computer power, compared with 18.5 mips for the top model in Dec's recently introduced Dec500 workstations and 17.8 mips for Sun's top of the range model powered by a Sparc risc processor.

Superscalar processors represent a refinement of the risc architectures that have emerged over the past two years as big challengers to conventional microprocessors. IBM, however, is the first computer manufacturer to announce workstations based upon superscalar processor technology.

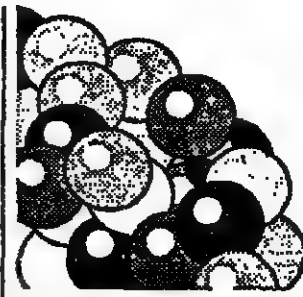
Unix has become important to computer users because it offers a standard environment in which Unix-based computers can communicate easily and share software. IBM's version of Unix, Aix, is described by one industry expert as "Unix with its hair brushed and its boots polished". In other words, IBM has smoothed out the rough edges of the Unix system. Whether it has genuinely contributed to standardisation through the industry is another matter. There are two competing versions of Unix, one based on Aix, the other on the latest version of the original Unix from AT&T. According to Unix International, which supports the AT&T version, Aix has moved in the direction of open systems but not far enough to give its customers all the advantages of open systems - in particular Unix International claims it has been developed specifically for the RS/6000.

IBM's competitors are already trying to hand back its lead in workstation hardware. Solbourne Computer of the US is shipping a multi-processor workstation that outperforms the RS/6000. Cypress Semiconductor is working on a next generation superscalar Sparc chip. Texas Instruments and Sun are collaborating on another version of Sparc that is expected to achieve record performance.

In a recently announced alliance, LSI Logic of the US is working with Hyundai of Korea to create a superscalar version of Sparc which, the companies predict, will achieve performance of 80 mips. Can IBM hold its newly found lead in workstation technology? Armstrong thinks so. "We are playing leapfrog. It took us four years to develop the RS/6000 including the design and the special software. Do not expect us to wait four years or even one year for enhancements. We intend to catch up that architecture while we have the lead. The RS/6000 is not a shooting star. It is a bright new planet that will be around for some time."

The implication for each of IBM's chosen areas of opportunity is that the time when the company was content to rest on its technological laurels are gone - and its competitors underestimate its determination to come out on top at their peril.

Previous articles appeared on April 24, 25, 27 and May 2 and 4.

WORTH WATCHING  
Della Bradshaw

## Too smart for traffic jams

BEING stuck in a traffic jam on London's M25 orbital network is no fun. But technology about to be licensed by the Department of Transport could help drivers avoid the frustrations.

The Trafficmaster system, developed by General Logistics, of Luton, will enable drivers to learn the location of traffic jams. The service will begin on the M25 this summer, but should encompass all motorways in England and Scotland by 1992.

The system uses a sensor installed on motorway bridges to measure the speed at which cars are travelling. The infra-red signals take the average speed of six cars passing under the bridge, and if that is less than 25mph the sensors send a radio signal to the General Logistics computer centre in Luton.

That radio signal is then sent across the radiopaging network to the in-car Trafficmaster computers of all the drivers who want to receive information on that stretch of motorway.

The computer, about the size of a paperback book, draws power from the car battery. It costs £300 to purchase, plus installation costs. Monthly rental is £18.50 for the service.

## An extended life for components

THE Institute of Coal Engineering, in Moscow, knows all about the problems of machine components wearing away in abrasive or corrosive situations.

To prevent it, the institute has developed a coating of chrome alloys which, it claims, greatly prolongs the life of digging equipment or

Industrial machinery. The coating contains no rare metals, such as molybdenum, and so is cheaper. The institute is looking for overseas business contacts or a joint venture partner.

## Urban transport blows own horn

A SYSTEM of urban transportation using vehicles propelled along an overhead track by moving air, much as a sailing vessel is pushed along a course, is proving its efficacy in Jakarta, writes Robin Burton.

The means of propelling the Aeromovel urban transit vehicle is not inside the car. Instead, a fin, attached along the bottom of the vehicle, slots into a square pipe. As pressurised air is blown horizontally backwards and forwards along the pipe, the train is blown along the track.

The airflow along the guideway, which is about 5.5m above ground level, is controlled centrally and generated by units which are installed at convenient intervals along the trackway. By changing the air pressure the vehicle can be made to accelerate, cruise or reverse.

## Friendly way to clean the boards

IN the battle to do away with chlorofluorocarbons, computer-maker Digital Equipment has developed a process for cleaning the latest printed circuit boards without using the discredited substances.

The technology has been developed to clean boards where the components are surface mounted - attached with adhesive. Because they are smaller than older components, water-based systems exert too much pressure - they would knock the tiny components off the boards.

So as well as developing a new cleaning fluid, Digital has developed a process which includes spraying smaller droplets and reducing the pressure at which they are applied. Digital is allowing manufacturers to use the technology without charge, and is making information available through the Industry Co-operative for Ozone Layer Protection in Washington DC.

Contact: General Logistics UK, 0225 687128, Institute of Coal Engineering USSR, 065 278 47 06, Aeromovel Indonesia, 01 510486. ILOPLP, US, 202 737 1411.

## LEGAL NOTICES

## THE COMMERCIAL BANK OF THE NEAR EAST PLC

NOTICE IS HEREBY GIVEN that the 1989 Annual General Meeting of the Company will be held at the Barbican House, 107-112, Leadenhall Street, London EC3A 4AE, on Thursday, 25 May 1990 at 12 noon, for the following purposes:

- To receive and adopt the Directors' Report and Accounts for the year ended 31 December 1989.
- To elect a Director.
- To re-elect the retiring Directors.
- To re-appoint the retiring Auditors and to authorise the Directors to fix the remuneration of the Auditors for the current financial year.

As a special business:-

- To consider and, if thought fit, pass the following resolution in a special resolution:- "That the name of the Company be changed to 'Commercial Bank of the Near East PLC'."
- To consider and, if thought fit, pass the following resolution:- "That the company be authorised to approve a compensation payment to a former Director of the Company."

By Order of the Board,  
D. L. HAMPHREYS,  
Secretary

Barbican House,  
107-112 Leadenhall Street,  
London EC3A 4AE  
25th April, 1990

Notes:  
1. Any member of the Company entitled to attend and vote at the above Meeting may appoint another person who need not be a member of the Company as the proxy to attend and vote instead of him.

2. There are no contracts of service which are required to be made available for inspection at the Meeting.

MIDDLE WATERSRAND (WESTERN AREAS) LIMITED  
(Reg. no. 05/04488/008)  
(Incorporated in the Republic of South Africa)

Notice of Calling of Shareholders  
Notice is hereby given that the transfer of shares in the ordinary shares of the company will be closed from the close of business on Friday, 25 May 1990 until the close of business on Friday, 1 June 1990.

By Order of the Board  
ANGLOVAAL LIMITED  
Secretaries  
Per A.C. Day  
9 May 1990

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THE COMMERCIAL BANK OF THE NEAR EAST PLC  
NOTICE IS HEREBY GIVEN that the SHARE TRANSFER BOOKS of the company will be closed from 24th May to 1st June, 1990, both days inclusive.

By Order of the Board  
D. L. HAMPHREYS,  
Secretary

Barbican House,  
107-112 Leadenhall Street,  
London EC3A 4AE

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● Upgrade: In-house, 3rd party.  
● Migration: In-house, 3rd party.  
● Conversion: In-house, 3rd party.  
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In the first instance, contact David Johnson, P.S.M. on 01 392 27600, or Tel: 01 392 27600 or write to P.S.M. High Street, Hammersmith, W12 7BA. 01 392 27600

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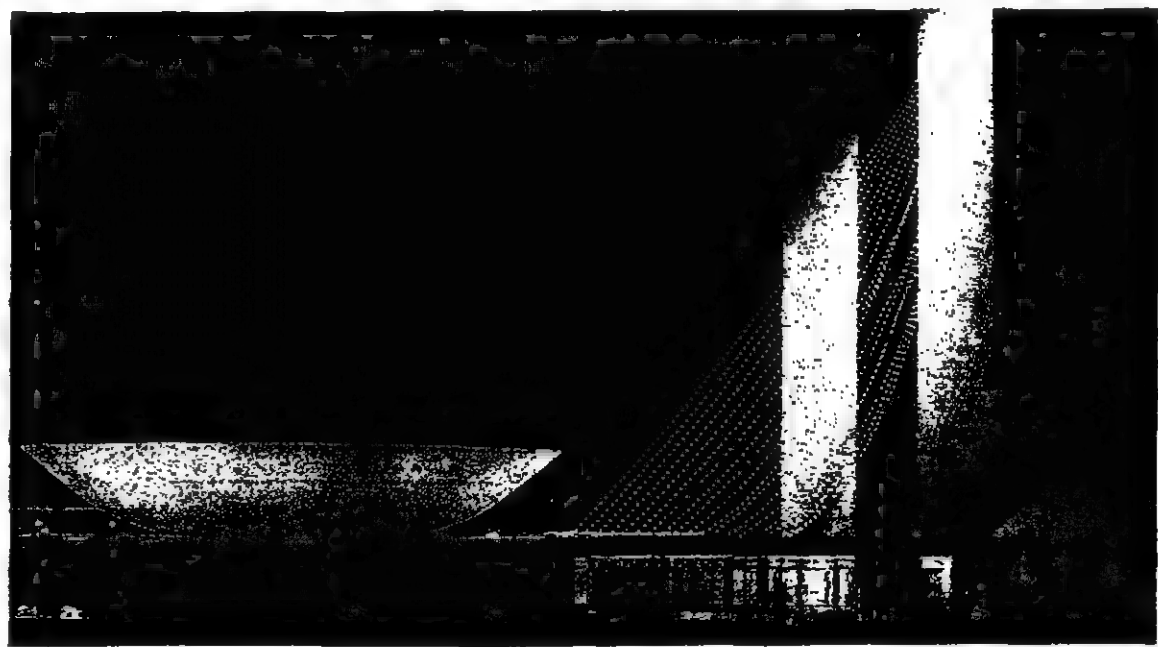
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## COMMODITIES AND AGRICULTURE

## Oil market still teetering near the edge

Opec members have yet to deliver on last week's output pledges, writes Steven Butler

LAST WEEK'S meeting of the Organisation of Petroleum Exporting Countries has left oil markets waiting nervously to see evidence of whether pledges for a big cut in oil production will be carried out.

The stakes are high. Most analysts believe Opec has pulled oil prices back from the precipice, yet they agree the market is still teetering not far from the edge.

Much depends on market psychology, which has proved resistant to change. Oil companies were saying the world's oil supply system was brimming over for weeks before prices took a steep plunge in mid-April to levels similar to the lows of 1986 and 1988 in real terms.

This prompted the Organisation of Petroleum Exporting Countries to convene last week in Geneva, where pledges to cut 1.445m barrels a day were taken from members.

Both before and after the meeting, weak prices for oil were concentrated in the prompt months on futures and forward markets, a technical situation known as contango which is rare for the oil markets. In forward delivery months, prices are higher, reflecting confidence that the current over-supply is a transitory phenomenon, although the forward premiums have been narrowing recently.

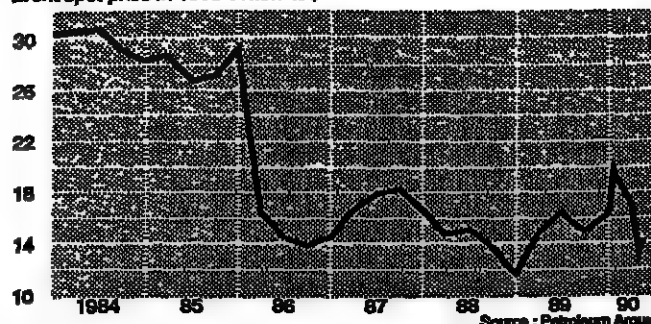
The rising price curve for forward months creates an incentive for oil companies to

hold stocks. They can protect themselves from any possible price decline by selling short in forward months, so long as the price curve holds its shape.

Yet it depends critically on confidence that prompt oil prices in three to four months will in fact be significantly higher than they are today.

## Oil price

Brent spot price in 1985 constant \$



Source: Petroleum Argus

While most analysts would say this is most likely to be the case, there are dissenters. "If you look at the way this market is behaving, it is setting itself up for a fall," says Mr Philip Verleger, a visiting fellow at the Institute of International Economics in Washington.

Mr Verleger warns that were the market to move out of contango and into backwardation - the normal situation for oil markets in which prompt prices are higher than forward prices - it could prove extremely painful. This is

because oil companies would have an incentive to liquidate stocks, driving down spot oil prices.

Whether this happens depends critically on how much Opec cuts production. "Opec has done enough," says Mr Geoff Pyne, an analyst at UBS Phillips & Drew. "It

430,000 b/d cut in Saudi production. Yet Mr Nazari's credibility had always ranked very high compared to other Opec ministers.

The doubts centre on what Kuwait and the United Arab Emirates will do. The UAE appears willing to take its 200,000 b/d pledge cut, but from a starting point of 8.1m b/d. This amounts effectively to no cut at all since UAE production is thought already to have reached 1.5m b/d.

This places credibility for the pact squarely on Kuwait. Sheikh Ali Khalifa Al-Sabah, the Kuwaiti Oil Minister, has uncharacteristically said nothing since the meeting. This may indicate a lukewarm commitment, although intense pressure from its militarily powerful neighbour Iraq may prompt Kuwait to toe the line.

If Kuwait does not cut back, few doubt that Saudi Arabia will reclaim its 24.5 per cent share of Opec output and lift production again. "The Saudis are giving the Opec members two to three weeks to make their decision," says Mr Peter Bogin, at Cambridge Energy Research Associates.

Many analysts believe a cut from 23.5m b/d in April to 22.5m b/d would be enough to quickly turn the market around. Saudi Arabia was yesterday reported to have asked its buyers to volunteer cancellations of cargo liftings for this month. This follows statements last Friday by Mr Hisham Nazer, the Saudi Oil Minister, that he had ordered an immediate

decision will be left to the President. The elimination would be granted under the generalised system of preferences, which allows developing countries to receive duty-free treatment of certain products exported to the US. GSP treatment is non-discriminatory, so in theory granting a tariff elimination to the Andean countries would mean that all GSP countries could start shipping tariff-free FCOJ to the US.

None of the four Andean nations has a big citrus industry. But Florida citrus representatives look apprehensively to the Brazilian citrus industry which has developed rapidly over the last decade. An Administration official said the Government - aware of the potential damage to domestic industries - could decide to offer graduated tariff reductions on a country-by-country basis in cases where there were highly competitive industries in some GSP countries.

But Florida citrus officials are not appeased. "If the four countries get in under GSP, that would be a disaster," said Mr Bobby McGowan, Florida Citrus Mutual's executive vice president. McGowan said the state's largest growers' organisation.

He said the industry's real fear was that the four would be the first to take advantage of a tariff elimination. He said up to 60 countries might start exporting tariff-free FCOJ to the US. "That," he declared, "would be a catastrophe."

If the waiver is granted, it would take time for the Andean countries to build up citrus groves. From the time a citrus grove is planted, it takes about seven years to produce a full crop. There is also the need to build processing plants.

Mr McGowan said that over the long term, the Florida industry would find it hard to compete against the cheap labour available in the Andean countries.

storage worldwide is quite full, there could be scope for increasing refinery runs and keeping more product in storage.

Mr Verleger believes Opec must cut well below 22m b/d, something no one believes is possible. He also doubts that oil companies are so confident about future prices as to want to fill up their tanks even more.

The numbers are not consistent and the variables change constantly. A recovery in Soviet exports in March by 400,000 b/d provided a big surprise for the market, and the Brazilian austerity programme has suddenly thrown some 300,000 b/d of gasoline on to international markets.

On the other hand, UK North Sea production is looking shaky as oil prices begin a work-to-contract action this week. Continued dry weather in Europe will also boost oil demand as hydro-electric and nuclear facilities lack necessary water.

All of these imponderables only serve to focus more attention on Opec as the price-setter for the market. A substantial cut in output, even to a point much higher than the market looks likely to want to take, could help preserve the present price structure and stability so long as oil companies are convinced forward month prices are not about to collapse. Confidence will rise further if the Opec countries refrain from dumping onto the market crude currently held in tanker storage.

## Saudis reject more Australian sheep

By Tony Walker in Cairo

SAUDI ARABIA has rejected a fourth shipment of Australian sheep in less than a month, this time on the grounds that the animals are too old.

The shipment of 53,000 animals was re-directed to Bas al-Khaimah in the United Arab Emirates where negotiations to sell them either in the UAE or elsewhere in the Gulf are continuing.

Australian officials are extremely concerned by this latest hiccup in the lucrative sheep trade to Saudi Arabia which imports about half the 7m live sheep Australia exports annually.

Saudi Arabia's rejection last week of a shipment totalling 400,000 sheep on the grounds that they were diseased led to the suspension of the live sheep trade for some four months.

Australian representatives had assumed that problems had been resolved following the visit to Saudi Arabia last year of a high-level Australian Meat and Livestock Corporation delegation, but this latest series of rejections has raised serious questions about the future of Australia's sheep trade to the Gulf.

Saudi Arabia claimed to have found traces of "scabby mouth" in three shipments of Australian sheep rejected this year. In its most recent rejection, Saudi officials cited a rule that has not previously been enforced that bans the import of sheep more than three years old. Australian officials are mystified as to why Saudi Arabia should have suddenly decided to insist on the age rule being observed. Australia suggested last year that restrictions on the importation of Australian sheep were being applied arbitrarily to protect Saudi producers.

## Gloom on EC sugar import concession

By David Blackwell

THE SUGAR protocol under which the African, Caribbean and Pacific (ACP) group of states enjoys access to EC markets is becoming marginalised, the group was told yesterday.

ACP ministers are meeting in London this week to look for proposals which will maintain the sugar protocol in the face of rapidly changing international conditions.

Mr Ghebray Berhane, secretary general of the ACP group, said that sugar represented the mainstay of the economies of most of the countries at the conference, and the only viable livelihood for their peoples. The protocol, under which 1.3m tonnes of cane sugar is guaranteed access to the EC each year, "remains the only meaningful area of co-operation between these countries and the European Community under the Lomé Convention (a

trade and aid pact between the EC and former colonies). The price offered by the EC for ACP sugar has been unchanged since 1965-66, and the ACP has consistently rejected a 2 per cent cut for 1989-90.

In addition to reduced income, the ACP countries faced competition from sugar substitutes, said Mr Berhane. They also had to face up to the likely completion of the Uruguay round of Gatt talks, the European single market in 1992, and developments in Eastern Europe which were expected to influence world trade positively.

"The ACP states represented here should think positively and develop viable approaches to the world market of these developments," he told the conference, which closes on Friday.

## US policy under attack

By Kevin Brown in Sydney

US GOVERNMENT support for sugar producers costs Australia \$450m a year, according to the Australian Government's Bureau of Agricultural and Resource Economics.

Mr Brian Fisher, the bureau's executive director, said last week that US policy had imposed a large cost on other sugar exporters, as well as increasing the cost of sugar in the US.

It had reduced the world sugar price by between 21 and 33 per cent between 1982 and 1988, he estimated.

The bureau said Mr Fisher's comments were aimed at intensifying debate in the US over replacement of the current five-year regime, which was introduced in 1985.

Australia is a major sugar producer, largely in New South Wales and Queensland, and an

exporter to the US under the existing quota system.

Mr Fisher said the current round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (Gatt), together with the impending 1990 US Farm Bill, provided a chance for reform of the US sugar regime.

A move to free trade by the US would raise world sugar prices and increase Australian sugar industry revenue by an average of \$47m a year over the period 1991-95, he said.

A discussion paper published by the bureau, 1990 and US Sugar Policy Reform, says the US sugar market has effectively been isolated from world markets by the current policy, which imposes a cost of around \$2.60 on consumers and up to \$0.54 on the world economy for every dollar of subsidy to sugar producers.

## Promising gold find in Turkey

By Jim Bodgener in Ankara

TURKEY'S COMINCO Madencilik, subsidiary of the Vancouver-based Cominco Mining, has reported the discovery of the first high-grade gold reserves ever found in the north-eastern Black Sea volcanic belt. But it is too early to talk of investment in mining operations, a company official says.

Further studies including fresh drillings are required for a firm investment decision. But in one of the drillings in the Corak area, a 15-metre-thick zone was intersected, assaying 22 grams of gold per tonne of ore, while another 8 metres-thick zone assayed at 18 grams a tonne. In one drill-hole in Tacara 30 km north-east of Corak, a 17-metre-thick zone assayed at 7 grams a tonne.

While research continues in Corak and Tac, the company plans to drill in other target areas as well, mostly in the north-east Anatolian volcanic belt, in the hope of finding multi-metal reserves of mostly copper, lead and zinc.

## Drug war may lead to orange overdose

Henry Hamman on Latin American calls for US tariff relief

THE FLORIDA citrus industry is waiting nervously to find out if it has been conscripted into the Bush Administration's war on drugs.

At issue is a request by four Andean countries - Peru, Bolivia, Ecuador and Colombia - for the elimination of tariffs on the importation of frozen concentrated orange juice into the US.

Florida is the biggest domestic producer of FCOJ. In 1988, sales were about \$2m, according to industry estimates. The request for tariff elimination came in petitions to the US Special Trade Representative. Orange juice is just one of a whole range of products, from asparagus to canned tomatoes to bicycles, that are being considered for tariff relief as a part of the Bush Administration's anti-drug Andean Trade Initiative. The Administration urged the Andean nations to submit the petitions.

For the Andean nations and the Bush Administration, the

tariff elimination seems like a good way to develop industries to replace the growing of coca leaves, the raw material for cocaine. But the US citrus growers, stainless steel ware makers and rum distillers, among others - see only a threat to its position in the domestic market.

Administration officials acknowledge that the political stakes are high. The citrus industry - concentrated in the so-called Sun Belt states of Florida, California, Texas and Arizona - has managed until now to keep the tariff on FCOJ above 30 per cent, the highest agricultural tariff the US imposes, according to one official.

Last month, the Administration's inter-agency trade policy staff committee held hearings on the elimination petitions. The committee is to report its findings to Mrs Carla Hills, the US Special Trade Representative. She, in turn, is to advise President Bush on the petitions by July 13. The final

decision will be left to the President. The elimination would be granted under the generalised system of preferences, which allows developing countries to receive duty-free treatment of certain products exported to the US. GSP treatment is non-discriminatory, so in theory granting a tariff elimination to the Andean countries would mean that all GSP countries could start shipping tariff-free FCOJ to the US.

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Mr McGowan said that over the long term, the Florida industry would find it hard to compete against the cheap labour available in the Andean countries.

## Falklands fishery closes early again

By Andrew Marshall

THE FALKLANDS Islands have again been forced to close their fishing zone earlier than expected because of overfishing.

The closure could cost the islands \$2m in refunds out of £28.5m total fishing revenue, which accounts for 70 per cent of Falklands' government income.

Fishing for iller squid, due to end on May 31, will close at midday today. The fishery authorities have said that the stock of the species is too low to allow the fishery to regenerate. But "in the last two years, escapement has been about 10 per cent," said John Barton, Direc-

tor of Fisheries yesterday. "The size of the stock has been large in previous years, so things have been OK. But this year the stock is much smaller."

Fishing for the species takes place also in Argentina and other countries. The Falkland authorities have been requesting the fishing fleets, which come predominantly from the Far East, to reduce their activities outside the fishery zone.

"The fishing effort is just too high out there," said Mr Barton. Last year, fishing for iller squid, the zone's other main species, was closed three weeks early because of similar fears. "There is a lot of unhappiness" with the decision, said Mr Alan Johnston of Multifish, part of White Boyd, which has a joint venture with a Japanese company at all waters around the Falklands.

The season had already been cut by one month, he said. Some Far Eastern companies were considering not taking licences at all next season. In addition, he deplored that the stocks were very low; there was evidence that they had shifted outside the zone into Argentine waters, he said.

## MARKET REPORT

ZINC prices continued to advance on the LME yesterday as three-month metal prices rose decisively through the \$1,700 a tonne barrier. The rise was fuelled by the tightness of LME supplies, particularly for June and July delivery dates; a constructive chart pattern; and commission houses and trade buying and short covering, traders said. Chartists now expect the advance to continue to \$1,750-\$1,760 a tonne before meeting further resistance. Cash copper advanced strongly following Japanese buying on the LME, and was gaining on Comex by midsession. New York traders said bullish support had come

from the strike at Ok Tedi in PNG and mine and labour negotiations at some US copper facilities. Cominco workers in Peru gave warning of a strike from Saturday unless wage demands are met. Cocoa prices recovered some of Tuesday's losses by the close in London after starting the day with a further rebound. "Short covering by a number of trade houses began the upswing, then jobbers were caught and had to cover in towards the close," one dealer said. In Chicago pork bellies were again linked by midsession.

Compiled from Reuters

## LONDON MARKETS

Commodity	Unit	Price	Change
Credit oil (per barrel FOB)	£	24.85-25.00	+0.25
Brent Blend	£	24.85-25.00	+0.25
WTI (1 pm est)	£	24.85-25.00	+0.21
Oil products	£	24.85-25.00	+0.21
Gas oil (per tonne CIF)	£	24.85-25.00	+0.21
Heavy Fuel Oil	£	24.85-25.00	+0.21
Naphtha	£	24.85-25.00	+0.21
Petroleum Argus Estimate	£	24.85-25.00	+0.21
Gold (per troy ounce)	£	370.75	+1.25
Silver (per troy ounce)	£	50.15	+0.15
Platinum (per troy ounce)	£	975.25	-3.75
Palladium (per troy ounce)	£	117.25	-2.25
Aluminium (free market)	£	1810	+80
Copper (US Producer)	£	125.5	+4.5
Lead (US Producer)	£	410	-5
Nickel (free market)	£	17.50	+0.05
Tin (High/Low market)	£	238.5	+0.05
Zinc (US Prime Western)	£	16.25	+0.05
Cattle (live weight)	£	110.50	+1.35
Sheep (head weight)	£	100.50	+0.5
Pigs (live weight)	£	55.50	+0.25
London daily sugar (white)	£	459.25	+0.5
London daily export price	£	459.25	+0.5
Wheat (English feed)	£	121.00	+0.5
Maize (US No. 3 yellow)	£	142.00	+0.5
Wheat (US Dark Northern)	£	121.00	+0.5
Rubber (Latex)	£	67.50	+0.5
Rubber (RSS No. 1)	£	67.50	+0.5
Cocoa oil (Philippines)	£	3372.50	+0.5
Palm Oil (Malaysia)	£	3300.00	+0.5
Copra (Philippines)	£	1180.00	+0.5
Soybeans (US)	£	1180.00	+0.5
Cotton "A" index	£	85.15	+0.05
Woolton (84s Super)	£	527.00	+0.05

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LONDON METAL RECORDED				
	Close	Previous	High	Low
Aluminium, 99.95 purity (3 per tonne)	1930.00	1930.00		
3 months	1930.00	1927.80	1988	
Copper, Grade A (3 per tonne)				
Cash	1725.30	1690.10		
3 months	1703.30	1680.10	1710	1680
Lead (3 per tonne)				
Cash	485.50	485.70	489.00	482.00
3 months	484.00	484.00		
Nickel (3 per tonne)				
Cash	8925.80	8900.75		
3 months	8700.25	8725.48	8775	
Tin (3 per tonne)				
Cash	9400.80	9420.50	9490	9350
3 months	9252.50	9300.40		
Zinc, Special High Grade (3 per tonne)				
Cash	1620.00	1678.90	1680	
3 months	1715.00	1710.00	1720	
LIFF Clearing 2/8 rate				
SPOT: 1.9780	3 months: 1.9500			
LONDON COMMODITY MARKETS				
	Market (Open and 3 prices)	E equivalent		
Cocoa	500.75-501.25	2001-201		
Opening	500.75-501.25	2001-2020.2		
Morning fix	500.70	2001.00		
Afternoon fix	500.50	2000.50		
Day's high	500.75-501.25			
Day's low	500.50-501.00			
Grains				
	3 prices	E equivalent		
Mapleleaf	379.00-384.00	225.4-229.4		
Britannia	379.00-384.00	225.4-229.4		
3 months	379.00-384.00	225.4-229.4		
Anglo	379.00-384.00	225.4-229.4		
Kruppersand	379.00-384.00	225.4-229.4		
John Sore	379.00-384.00	225.4-229.4		
Old Sax	379.00-384.00	225.4-229.4		
Nobel Plant	379.00-384.00	225.4-229.4		
Silver tin				
	3 prices	US cent equiv		
Sept	227.70	498.75		
11 months	226.30	497.00		
12 months	226.00	497.00		
13 months	224.00	494.00		
TRADED OPTIONS				
	Advances (30.75%)	Calls	Puts	
Strips price 3 months July				
1400	132	140	4	18
1600	84	84	33	50
1800	19	41	91	103
Copper (Grade A)				
	200s	100s	Puts	
9400	207	184	37	89
2000	148	105	86	137
2500	88	69	111	197
Coffee				
	Jul	Sep	Jul	Sep
050	38	60	21	34
700	17	36	50	60
750	7	22	80	94
Cocoa				
	Jul	Sep	Jul	Sep
900	57	80	17	27
950	28	52	38	48
1000	14	33	74	80
Rice (Crisp)				
	Jul	Aug	Jul	Aug
1000	32	32		
1750	54	61		
1800	32			



## LONDON STOCK EXCHANGE

## Equities lose their upward momentum

THE impressive performance given by London's equity market since the results of last Thursday's local government elections came to a halt yesterday as share prices wilted in the face of some half-hearted selling pressure.

This was partly caused by worries over tomorrow's inflation figure, via the Retail Price Index, and the outcome of the second tranche of the three-day US Treasury bond auction held last night. But dealers said the market had also been upset by news that the Office of Fair Trading had requested an investigation into new car prices and car spares in the UK.

Account Opening Dates		
First Opening	May 14	May 29
Second Opening	May 24	Jun 7
Third Opening	May 31	Jun 14
Fourth Opening	Jun 4	Jun 18

Share prices were edging better in trading before the official 8.30am start, with dealers

hastened by the result of the Tuesday's US Treasury auction of 3-year bonds and Wall Street's small gain. But prices began to slip minutes before the opening amid stories - which were not sub-

stantiated - of a small sell programme in the market and remained on the defensive for the rest of a difficult session.

Sentiment in the City was not helped by the continuing low level of activity, a factor behind the latest casualty in the UK securities industry, which saw FHP, the Midlands-based group, withdraw from marketmaking.

Turnover yesterday totalled only 343.7m at the official 4.30pm close but had jumped to 425.8m at a 4.45pm recording on TOPIC. This figure was said to have been boosted considerably by a number of large individual trades, particularly in Next, the retailer.

The probe into new car prices and spare parts damaged British Aerospace, which also suffered from another Press report on alleged sweeteners over the acquisition of Rover Group. Lucas, GKN and a number of car retailers came under heavy pressure at one point before staging a rally later in the day.

The opening of Wall Street saw London slide further and register its lowest level of the day, before steadying to close with the FT-SE 100 index down 19.3 at 2,162.7. At its worst the index was 21.4 off.

"There was never any real weight of selling in the market, it was much the same as on

Tuesday but with marketmakers clipping prices to stem any attempted offerings," said one senior salesman. "There are not that many bears about, quite the contrary. If you have a line of top quality stock there is no shortage of buyers," he added.

In a mixed bag of features Trafalgar House shares came under pressure as analysts downgraded their forecasts for the full year. Reed Walker, the leisure group, moved sharply higher immediately following the preliminary figures but then retreated as analysts pinpointed the impact of property disposals on the much-better-than-expected figures.

## FINANCIAL TIMES STOCK INDICES

	May 9	May 8	May 7	May 6	May 5	Year Ago	1989	Since Completion
Government Secs	78.10	78.24	73.88	74.88	74.27	66.56	74.13	49.18
Financial Index	65.36	65.16	63.35	64.74	64.50	67.36	65.81	60.53
Ordinary Share	1985.0	1710.1	1698.8	1678.0	1678.0	1788.4	1653.6	1653.6
Gold Mines	228.8	227.0	215.6	215.5	218.5	173.3	215.5	215.5
FT-SE 100 Share	2162.7	2162.0	2162.2	2134.9	2137.8	2117.0	2163.7	2163.7

Ord. Div. Yield 5.38 5.31 5.35 5.41 5.41 4.44 5.41 5.41

Dividend Yield 5.38 5.31 5.35 5.41 5.41 4.44 5.41 5.41

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## US has taste for Biscuits

UNITED Biscuits rose when Salomon Brothers issued a "buy" recommendation and suggestions circulated round the market that the company might be subjected to a takeover bid from Philip Morris, the US tobacco and food group.

Initially, UB was up 8 at 58p on low volume as dealers marked prices higher in response to the previous session's late spurt, which had left some operators short of stock. But UB slipped back as sellers emerged and closed only 3 ahead at 58p after turnover of 2.7m shares.

Salomon said UB's recent lacklustre performance was not justified as long-term earnings per share growth, forecast at 12 per cent per annum, had not yet been reflected in the current share price.

The presence of Philip Morris executives earlier in the week at a number of City banking houses fuelled speculation that it could bid for UB. According to an analyst who attended one of the presentations, Philip Morris said it was interested in acquiring a European food manufacturer with a strong national presence.

Analysts, however, also thought a bid by Philip Morris at this stage unlikely, and this partly explained the retreat in the UB share price from earlier highs.

UB holds its annual meeting in Edinburgh today and there was strong expectation in the market that Sir Hector Leitch, the chairman, who retires today, would make an upbeat statement.

MMC probe

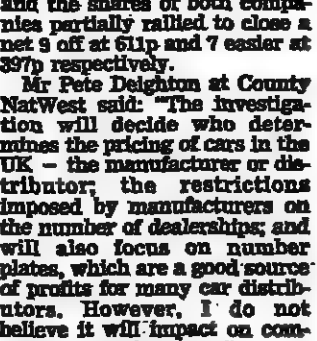
Several leading motor and engineering stocks were hit by the news that Sir Gordon Murrells, Director General of Fair Trading, has asked the UK Monopolies and Mergers Commission to investigate the supply of new cars and car parts (including number plates).

The Commission has been requested to complete its investigation and report to the Secretary of State for Trade and Industry by August 9 next.

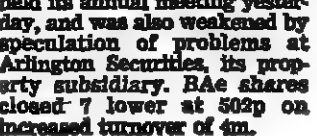
Shares of motor distributors were immediately marked lower on the news, although there was little selling pressure. Among the shares most affected were Evans Halshaw, which gave up 9 at 185p, Applaryard, 8 easier at 112p, T. Cowie, 5 lower at 34p, and Catrys, 5 down at 51p.

Motor component manufacturers Lucas and GKN also lost

## FT-A All-Share Index



## Equity Shares Traded



## SKB discounted

Much of the effect of Smith-Kline Beecham's decline in first-quarter profits from £235m to £215m had been anticipated in the recent share price weakness.

Analysts agreed that the shortfall had come as a result of debt incurred in last summer's merger between Smith-Kline Beecham and Beecham. They were divided, however, in their assessment of the results.

On the negative side, some said that if last year's first-quarter figure was adjusted to account for the debt, the year-on-year growth would be about 13 per cent - at least 5 percentage points below what analysts expected from the sector.

Bulls of the stock, however, such as Mr Ian Moore of UBS Phillips & Drew, said that the pharmaceutical division's operating profits had grown 40 per cent in a year. He said that the yield of around 2 per cent, compared with 18 per cent on 1988, was a "dip" at one point in the afternoon session, but recovered to 47p for a net decline of 6 after good turnover for the stock of 4.5m shares.

## Profit reductions

Trafalgar House was hit by a series of downgrades after reporting half-year profits in line with analysts' forecasts.

Analysts confused

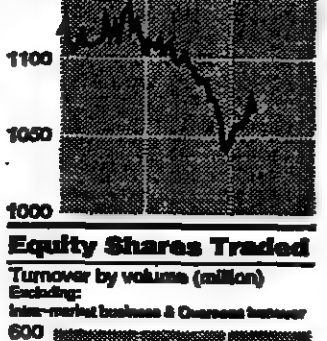
A sharp rise in shares of Reed Walker in the wake of double full year profits was more than reversed after analysts' meeting and as the

market took a closer look at the figures.

The profit figure of £82.2m was 21m above the most optimistic of analysts' forecasts, but included higher-than-expected income from the sales of public houses and betting shops. If they had been stripped out, the profit would have been well below the bottom end of the range of forecasts.

The result was to leave many analysts floundering in their efforts to predict this year's figures. The trend was to upgrade from around £20m to between £20m and £25m.

## FT-A All-Share Index



## Equity Shares Traded



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A sharp rise in shares of Reed Walker in the wake of double



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## MOTORS, AIRCRAFT TRADES

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1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	9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July 1965











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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 47

April 1961



**NASDAQ NATIONAL MARKET**

**4pm prices May 3**

[illegible]

**4pm prices  
May 5**

[illegible]

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## AMERICA

## Dow trails bonds ahead of 10-year note auction

## Wall Street

THIS WEEK's quarterly refunding bill continued yesterday in US financial markets with stocks mostly lower throughout the session in line with a weaker bond market but then recovering towards the close as good results emerged for the 10-year auction, writes Janet Bush in New York.

The Dow Jones Industrial Average closed 0.86 points lower at 2,732.58 on moderate volume of 152m shares.

On Tuesday, the Dow had traded in an extremely tight range for almost the entire session and then jumped in the closing minutes as good results were announced for the three-year auction. The Dow closed on Tuesday 11.94 points higher at 2,732.58.

The stock market is completely dominated this week by whether or not the quarterly refunding will go well and is tending to track the bond market very closely. The \$10.5bn three-year auction was successful with apparently healthy participation by Japanese investors and a record \$2.5bn in non-competitive bids, suggesting good demand from domestic retail investors.

This was followed yesterday by good results for the \$10bn 10-year sale which saw total subscriptions of \$30.04bn and an average yield of 8.88 per cent. Despite these results, the Treasury's benchmark long bond was still quoted 1/4 point lower to yield 8.88 per cent.

There was lingering concern, even with two auctions successfully completed, about today's 30-year sale. The bond market had anyway been on the defensive at the opening because of an overnight drop in the dollar in Tokyo which suggested that overseas investors were not preparing themselves to bid at the refunding.

The late buying on Tuesday brought the Dow's winning streak to seven sessions - an impressive performance. Even before the rally in the last minutes of the session, the blue chip index had held very steady throughout the day.

Yesterday's marginal loss broke this string of gaining sessions but not decisively and equity analysts said that, given the weakness in the bond market, it was a good performance.

Among featured issues yesterday was F.W. Woolworth which slipped 1/4 to \$60.40 after reporting a 5.5 per cent rise in its fiscal first quarter earnings compared with a year ago which disappointed analysts' expectations.

Stone Containers fell 1/4 to \$16 1/4 on concern about pending union negotiations. The Canadian Paperworkers union has picked three Quebec mills which the company owns for contract talks.

## Canada

A SURGE in gold stocks propelled Toronto share prices to a higher close in active trade. The Composite Index closed up 26.03 points to 3,494.00 with advances ahead of declines by 340 to 260. The market has gained about 130 points in the last six sessions. Volume rose to 26.1m shares from 19.2m.

Gold stocks led the advance with a 4.3 per cent index gain. Among the senior precious metal miners, American Barrick gained 3/4 to \$320.40. FPL up 10 cents to \$49.90, managed to turn in a small first-quarter profit despite the poor outlook for the Atlantic fisheries industry. The company said it sees a steady performance for the rest of the year.

## SOUTH AFRICA

JOHANNESBURG succumbed to profit-taking after its recent gains, and gold shares were underpinned by a weaker bullion price. Vaal Reefs fell \$10 to \$340 and De Beers lost \$1.75 to \$39.35. The JSE all-share index fell 25 to 3,205.

## EUROPE

## Profits announcements keep interest alive

PROFITS NEWS kept investors interested yesterday, as most leading bourses finished lower. One exception was Zurich, which rose in active trading, writes Our Markets Staff.

AMSTERDAM was pulled lower by multinational stocks in the face of the weaker dollar, while insurance and banking stocks gained as investors sought a safe haven.

Fokker, the aerospace group, surprised the market with the news that it would double net profits in 1990 as well as resume the dividend after three years. The stock rose 60 cents to F147.80.

Dealers reported continued heavy selling of Philips from the UK and West Germany in the wake of its bad first quarter results. The stock fell 90 cents to the low of F131.50.

Among the international stocks, Unilever, due to report first quarter earnings on Friday, eased F11 to F142.60 and Royal Dutch eased F11.90 to F140.20. The CSE Tendency index fell 0.6 to 17.1.

FRANKFURT fell back after an early recovery. The equity market is torn between relief, with specific fears subsiding, and uncertainty about the immediate scope for improvement. The DAX index closed 2.70 lower at 1,896.58 after a rise to 1,914.14 early in the day; at mid-session, the FAZ was 2.49 lower at 803.34.

Mr James Corbish, an equity

strategist with County NatWest, says that an increase in West German interest rates could be delayed until September or October; he adds that the IG Metall wage and working hours settlement has been achieved with less disruption than once seemed likely.

County NatWest is looking at a 10 per cent earnings

growth estimate over the next

12 months, and the prospect of

an autumn share price revival.

Volume rose from DM6.9bn

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Big risers of the day included A & M, up DM36 to DM84, and DM148 higher this month following the bid for Co. op, the retail group in which its RIG subsidiary is now a major shareholder. Linotype gained DM48 to DM698 on a successful showing at the Drupa fair in Düsseldorf.

PARIS ran out of steam as investors waited for the Treasury quarterly refunding programme in the US to come to an end. Anticipation of the

annual vote on the French Government, due yesterday night, led to cautious profit-taking. The CAC 40 index, which reached a day's high of 2,133.90, closed 16.14 down at 2,103.69 in turnover estimated at just less than FF6bn.

Only among the bank group, led by FF44 to FF651 on the rumours of its interest in Satchi and Satchi, while Générale des Eaux lost FF110 to FF2,630 on profit-taking.

MILAN opened weak after Fiat's 1989 results, which were revealed late on Tuesday, but was pulled off its lows by strong demand for banks.

Fiat's earnings were at the lower end of forecasts and the increase in dividend was less than expected. Investors were also disappointed that Fiat did not announce a much-rumoured link-up with another car manufacturer as well as by its plans to issue new shares to incorporate the holding company. Fiat's ordinary shares fell L139 to L10,340.

Among banks, Banco di Roma added L30 to L23,310 on

rumours that it would soon conclude a share-swapping accord with Banco Hispanoamericano de Spain. The Comit index fell 0.70 to 701.53.

ZURICH extended last week's rally as the Credit Suisse index rose 7.4 to 602.7. Foreign investors have been

impressed by the stronger Swiss franc and the prospect of easier money market rates.

This continued to help the insurance sector, which rose 6.5 per cent last week. Volume was said to be close to its year's high. Roche certificates rose SF120 to SF1,730 and topped the most-active list on the chemical group's strong first quarter sales; Ciba-Geigy certificates rose SF90 to SF1,300, part of a re-rating process according to Mr Eric Dähler of UBS Phillips & Drew. He says that its profits split, revealing a 51 per cent contribution from pharmaceuticals, suggests a 10% to 11% against about 9% at present.

STOCKHOLM rose on gains by Ericsson, following its excellent first quarter results, and the forestry group, Stora, which said its recent West German acquisition, Feldmühle Nobel, would increase its profits by up to SKr500m annually within five years. Ericsson free B shares rose SKr40 to SKr1,015 and Stora free B shares rose SKr17 to SKr315. The Åttioårsliden General index added 13.6 to 1,185.3 in increased turnover of SKr31m.

BRUSSELS rose late in the session after quiet early trading. ACOG-Union Minière fell BF20 to BF4,555; its parent company, Société Générale de Belgique, said that it would float 7 to 8 per cent of the non-ferrous metals group at between BF4,100 and BF4,400 a share. SGB gained BF45 to BF3,346 on 25,000 shares.

## Attractions of new issues grow stronger in Nigeria

Vitality has not spilled over into the secondary market, however, as Tony Hawkins explains

BOOSTED BY an economic recovery programme which includes plans to privatise up to 100 companies, the Nigerian capital market is set to play an increasingly important role during the 1990s. Last year, N1.5bn (\$200m) of new capital was raised in the market, of which N780m represented stock exchange flotations.

Figures supplied by the Nigerian Stock Exchange show that there were seven rights issues by leading companies such as NTA, CFAO, Boko and Mobil, which raised N173m. Other private sector flotations, excluding privatisation issues, exceeded N400m.

With more rights issues in the pipeline and the Government planning to raise N1bn in privatisation offers, the new issue boom will continue, although competition for funds between the private sector and the Government's privatisation programme seems likely to become more acute, with privatisation likely to lose out.

The new issue market's popularity is the result of two developments - privatisation and the credit squeeze. Companies have been quick to restructure their balance sheets, exploiting the opportunities arising from the revaluation of assets resulting from the steep depreciation of the naira. Furthermore, with short-term bank borrowing costing more than 27 per cent, finance managers have piled into the new issue market where capital can be raised at half the apparent cost.

Unfortunately, vitality in the

new issue market has not spilled over into the secondary market. The number of companies listed on the NSE has increased from 90 in 1980 to 111 at the end of 1989; and while, in domestic currency terms, equity market capitalisation more than quadrupled to N7.5bn over the period, market turnover was a mere N28m.

This is explained partly by the fact that more than 40 per cent of NSE equities are held by foreign multinational com-

Share prices have not kept pace with depreciation of the naira. In dollar terms, equity market capitalisation has fallen by two-thirds since 1980

panies, which are not active in the market. Institutional shareholders hold 15 per cent and the Government a further 8 per cent, leaving roughly one-third in the hands of an estimated 1.4m individual investors. They too are reluctant to part with their equity, tending to buy and hold.

Share prices have more than doubled in the last three years, thanks to a combination of rapid inflation, high liquidity and a shortage of scrip. This week, the index of share prices (1984=100) stood at 350, with the index having risen 50 per cent in the past 15 months.

But share price inflation has

not kept pace with naira depreciation. Expressed in dollar terms, equity market capitalisation has fallen from \$3.1bn in 1980 to an estimated \$1bn. The average dividend yield was 7.3 per cent in 1989, which is hardly attractive in an economy where inflation is unlikely to fall below 15 per cent.

This is particularly so at a time when corporate profit margins are being squeezed to the point where a significant reduction in dividends is on the cards. Critics complain that share prices are inflated in both the primary and secondary markets.

In early March, there was market controversy over the relative pricing of Paterson Zochonis and Lever Bros shares. Brokers resorted to balance sheet and profit analysis to explain what they saw as a serious discrepancy.

Because the NSE is a seller's market - which promotes new issues - and because the market prices often bear little relation to underlying market fundamentals. Even at a time of high interest rates and not severe liquidity squeeze, share prices continue to move inexorably higher, partly because scrip is so hard to come by.

This may be slowed - or even reversed - over the next 18 months as new issue activity, including privatisation, absorbs a growing proportion of the investments made. There will be downward pressure on prices, too, as profit margins are squeezed but, in spite of this, the bull market seems destined to continue at least until mid-1990.

## Tokyo

SHARE PRICES ended moderately lower as investors became cautious and took profits after the rise over the last few sessions, writes Michiko Nakamoto in Tokyo.

The market took off on a strong note, with active buying lifting the Nikkei average over the 31,000 mark in morning trading. But concerns over the Soviet Union put a stop to the buying, and share prices retreated.

The Nikkei average went from a high of 31,110.76 to a low of 30,894.75 before closing down 24.97 at 30,945.61. But advancing issues outnumbered fallers by 572 to 498, with 139 issues unchanged. Turnover fell from 790m to 700m shares, after 73m on Tuesday.

Osaka remained buoyant and the OSE average gained 10.11 on 35.6m shares, after 73m on Tuesday.

Roundup

INVESTMENT interest focused on New Zealand and Thailand yesterday, as leading regional

markets had a quiet session. Singapore and Kuala Lumpur were closed for holidays.

NEW ZEALAND rose after Tuesday's profit-taking, with the Barclays index gaining 12.78 to 1,722.71 in active trading. Foreign interest helped volume remain healthy, with 17m shares traded, valued at NZ\$28m, after Tuesday's 19m shares worth NZ\$21m.

Goodman Fielder Wattie, the food processing group, gained 10 cents to NZ\$1.95 with 1.5m shares changing hands. There was speculation that Coles Myer, the Australian retailer, would buy Elders Ltd's 10 per cent stake in Goodman Fielder.

Mr Pat Goodman, chairman of Goodman Fielder, yesterday denied rumours that he would

buy the stake himself.

AUSTRALIA firmed in quiet trading, with the All Ordinaries index rising 0.9 to 1,477.8. Coles Myer eased 8 cents to A\$7.54 after announcing a decline in third-quarter sales. Goodman Fielder Wattie gained 10 cents to A\$1.49.

Volume picked up to 88m shares valued at A\$200m from the previous day's 58m and A\$131m. National Australia Bank lost 12 cents to A\$6.20 with 6.9m shares exchanged.

THAILAND came back from its four-day weekend in good spirits, and share prices rose in busy trading, financial stocks in particular. The SET index rose 12.16 to 875.18.

HONG KONG was in cautious mood, although stocks

finished above their day's lows.

The Hang Seng index recovered from a loss of 25 points to end 11.31 lower at 2,942.27 in turnover of HK\$1,070m, down from Tuesday's HK\$1,230m.

Investors were nervously looking ahead to the beginning of next month, June 3 is the deadline for the US decision on whether to renew China's status as a favoured trading nation, while June 4 is the anniversary of the massacre in Tiananmen Square in Peking.

SEMI, eased after its five-session rally, as the composite index lost 3.18 to 798.36; volume was 12m shares worth 215m won. The previous day's package of government measures, designed to support the market, had been discounted.

## FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	WEDNESDAY MAY 9 1990						TUESDAY MAY 8 1990						DOLLAR INDEX		
	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)			
Figures in parentheses show number of stocks per grouping															
Australia (61)	131.52	+0.2	116.17	115.25	-0.1	6.02	131.31	116.61	115.41	168.31	125.85	135.79			
Australia (19)	259.88	+0.1	225.94	221.69	-1.0	1.20	298.73	230.65	223.87	255.83	189.15	123.64			
Belgium (150)	150.70	+0.1	133.11	135.35	+0.4	4.61	145.00	132.55	128.55	163.01	122.11	100.81			
Canada (150)	134.30	+0.1	118.16	119.38	+0.4	3.60	134.12	117.11	113.00	153.61	130.71	134.65			
Denmark (34)	249.19	+0.6	220.10	211.91	-0.1	1.57	247.78	220.04	212.14	280.82	236.69	181.03			
Finland (26)	132.19	+0.1	116.76	108.28	-0.8	2.53	132.04	117.25	108.89	152.29	120.99	150.69			
France (129)	168.95	+0.2	149.14	148.14	-0.7	2.81	168.45	146.61	147.20	166.85	141.08	117.67			
Germany (129)	122.14	+0.1	107.75	117.18	-0.5	4.42	122.15	117.18	113.17	145.19	122.14	117.67			
Hong Kong (48)	122.14	-0.2	107.89	122.15	-0.8	0.50	122.35	108.85	124.20	125.90	112.24	139.39			
Ireland (17)	180.08	+1.4	158.05	155.05	+0.4	2.77	177.55	157.85	154.45	196.57	172.72	148.24			
Italy (96)	103.35	+0.7	91.29	92.97	-0.2	2.65	102.59	91.11	93.17	103.73	91.85	80.12			
Japan (454)	145.21	+0.1	126.57	126.57	-0.5	2.59	144.35	124.79	124.79	169.44	124.45	100.81			
Malaysia (2)	218.21	+0.1	192.78	229.67	+0.0	2.37	218.10	193.68	229.57	246.32	192.45	182.79			
Mexico (13)	494.21	+2.2	383.53	1340.19	+2.2	0.30	474.74	377.18	1310.96	943.21	324.53	160.24			
Netherlands (43)	138.68	+0.3	123.54	117.58	-0.8	4.79	139.39	123.79	118.59	145.68	130.43	118.13			
New Zealand (17)	62.08	+0.5	54.94	57.29	-0.4	7.87	61.78	54.85	57.05	75.36	56.97	71.71			
Norway (2)	186.49	+2.6	205.71	226.13	+5.4	2.61	186.49	206.13	240.00	240.00	176.98	155.02			
Singapore (25)	191.82	+0.1	169.43	184.95	-1.0	1.83	191.77	170.12	164.96	199.36	179.70	157.05			
South Africa (50)	198.59	-0.6	184.81	185.47	-1.0	3.57	187.73	186.72	167.15	251.39	173.80	132.27			
Spain (42)	180.49	+1.3	142.55	124.24	+0.4	4.24	169.72	140.95	124.75	165.19	132.94	133.74			
Sweden (33)	168.49	+2.6	175.05	175.61	+2.1	2.31	168.49	174.75	176.65	179.98	168.49	155.02			
Switzerland (65)	85.00	+0.3	34.43	84.43	+1.3	4.45	83.87	83.36	83.36	89.12	83.75	72.99			
United Kingdom (306)	147.03	-0.3	129.87	125.87	-0.8	5.05	147.40	130.90	130.90	164.30	136.87	146.82			
USA (537)	138.49	+0.2	122.32	138.49	+0.2	3.50	138.21	122.74	138.21	145.41	130.61	124.53			
Europe (985)	143.21	+0.5	126.50	123.48	-0.4	3.63	142.49	126.54	123.95	146.66	135.57	118.89			
Nordic (118)	194.29	+1.7	171.81	162.44	+1.0	1.93	191.08	198.68	180.85	201.89	185.01	154.05			
Pacific Basin (660)	142.17	+0.9	125.57	139.92	+0.7	0.91	140.66	125.09	139.81	192.75	124.63	188.72			
Europe - Pacific (164)	128.15	+0.9	109.59	107.01	+1.8	3.01	128.15	109.59	107.01	128.15	109.59	107.01			
North America (657)	138.15	+0.2	122.05	136.67	-0.2	3.50	137.43	122.43	136.56	145.78	132.12	125.14			
Pacific Ex. UK (679)	138.76	+1.0	122.56	118.85	-0.2	2.78	137.45	122.06	118.05	138.76	124.61	101.54			
Europe Ex. Japan (206)	128.54	+0.1	111.77	114.89	-0.1	5.27	128.45	112.30	115.02	136.92	122.53	129.69			
World Ex. US (1839)	143.26	+0.7	126.09	133.72	-0.1	2.24	142.64	126.31	133.84	143.26	133.72	158.48			
World Ex. US (2047)	143.26	+0.7	126.09	133.72	-0.1	2.24	142.64	126.31	133.84	143.26	133.72	158.48			
World Ex. S. & A. (2315)	140.21	+0.6	123.85	134.04	-0.0	2.55	139.93	123.82	134.04	161.84	131.95	145.36			
World Ex. Japan (1821)	140.38	+0.3	124.00	131.92	+0.0	3.61	138.93	124.27	131.97	145.52	134.62	123.30			
The World Index (2373)	140.50	+0.6	124.10	135.16	+0.0	2.56	139.72	124.08	135.16	162.05	132.25	145.29			